Calendar No. 17

99th Congress
1st Session

SENATE

Report
99-15

FIRST
CONCURRENT RESOLUTION ON THE BUDGET
FY 1986

REPORT

OF THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

TO ACCOMPANY

S. Con. Res. 32

SETTING FORTH THE CONGRESSIONAL BUDGET FOR THE UNITED STATES GOVERNMENT FOR THE FISCAL YEARS 1986, 1987, AND 1988, AND REVISING THE CONGRESSIONAL BUDGET FOR THE UNITED STATES GOVERNMENT FOR THE FISCAL YEAR 1985

TOGETHER WITH

ADDITIONAL AND MINORITY VIEWS

March 20 (legislative day, February 18), 1985.—Ordered to be printed

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U.S. GOVERNMENT PRINTING OFFICE
44-839 O
WASHINGTON : 1985

S253-1

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CONTENTS

Page

SENATE CONCURRENT RESOLUTION 32 v

Chapter I. INTRODUCTION 3

- Spending 3
- Summary of the Major Provisions of the Budget Resolution for FY 1986 5
- Reconciliation and "Caps" 14
- Revenues 16
- Economic Assumptions 17
- Miscellaneous Provisions 19
- Conclusion 19

Chapter II. ECONOMICS 21

- Committee Recommendation 21
- Economic Assumptions in the Budget Resolution 25
- Economic Benefits of Budget Action 27
- Comparison to CBO Current Policy Baseline 33
- Overview of the Economy 39
- Emerging Stress in Capital Markets 41
- Monetary Policy 42
- The United States in a World Economy 44
- Implications for Policy 49

Chapter III. REVENUES 55

- Summary 55
- Revenue Baseline 55
- Committee Recommendation 55
- Tax Expenditures 56

Chapter IV. SPENDING 67

- Introduction 67
- The Baseline 67
- Summary Tables 69
- Functions:
  - (050) National Defense 84
  - (150) International Affairs 87
  - (250) General Science, Space, and Technology 90
  - (270) Energy 92
  - (300) Natural Resources and Environment 95
  - (350) Agriculture 99
  - (370) Commerce and Housing Credit 102
  - (400) Transportation 105
  - (450) Community and Regional Development 109
  - (500) Education, Training, Employment, and Social Services 112
  - (550) Health 116
  - (570) Medical Insurance 119

Chapter IV. SPENDING—Continued
Functions—Continued

Page

(600) Income Security 122
(650) Social Security 126
(700) Veterans Benefits and Services 128
(750) Administration of Justice 131
(800) General Government 133
(850) General Purpose Fiscal Assistance 136
(900) Net Interest 138
(920) Allowances 140
(950) Undistributed Offsetting Receipts 142

Chapter V. RECONCILIATION AND APPROPRIATIONS CAPS 145

Reconciliation 145
Appropriations "Caps" 145

Chapter VI. CREDIT 153

Credit Baseline 153
President's Credit Budget Request 154
Committee Recommendation 154
Budgetary Treatment of Federal Credit Programs 155

Chapter VII. VIEWS AND ESTIMATES OF SENATE COMMITTEES 159

Budget Committee Letter Requesting Early Response 160
Committee on Appropriations 161
Committee on Banking, Housing, and Urban Affairs 163
Committee on Finance 165
Committee on Governmental Affairs 166
Committee on the Judiciary 168
Committee on Labor and Human Resources 182
Committee on Rules and Administration 186
Committee on Small Business 187
Committee on Veterans' Affairs 199
Select Committee on Indian Affairs 229
Congressional Joint Economic Committee 277

ROLLCALL VOTES IN COMMITTEE 293

VIEWS OF COMMITTEE MEMBERS:

Additional views of Senator Boschwitz 324
Additional views of Senator Symms 325
Additional views of Senator Kasten 331
Additional views of Senator Quayle 333
Additional views of Senator Gorton 335
Additional views of Senator Grassley 338
Minority views of Senators Chiles, Hart, and Exon 340
Minority views of Senator Hollings 343
Minority views of Senator Sasser 345
Minority views of Senator Hart 347
Minority views of Senator Riegle 349
Minority views of Senator Moynihan 351
Minority views of Senator Exon 355
Minority views of Senator Lautenberg 357

99TH CONGRESS
1ST SESSION

S. CON. RES. 32

CONCURRENT RESOLUTION

Setting forth the congressional budget for the United States Government for the fiscal years 1986, 1987, and 1988 and revising the congressional budget for the United States Government for the fiscal year 1985.

Resolved by the Senate (the House of Representatives concurring), That the Congress hereby determines and declares that the concurrent resolution on the budget for fiscal year 1985 is revised and replaced, the first concurrent resolution on the budget for fiscal year 1986 is established, and the appropriate budgetary levels for fiscal years 1987 and 1988 are set forth.

(a) The following budgetary levels are appropriate for the fiscal years beginning on October 1, 1984, October 1, 1985, October 1, 1986, and October 1, 1987:

(1) The recommended levels of Federal revenues are as follows:

Fiscal year 1985: $736,200,000,000.
Fiscal year 1986: $793,800,000,000.
Fiscal year 1987: $866,600,000,000.
Fiscal year 1988: $956,200,000,000.

and the amounts by which the aggregate levels of Federal revenues should be increased are as follows:

Fiscal year 1985: $0.
Fiscal year 1986: $1,100,000,000.
Fiscal year 1987: $2,300,000,000.
Fiscal year 1988: $3,700,000,000.

and the amounts for Federal Insurance Contributions Act revenues for hospital insurance within the recommended levels of Federal revenues are as follows:

Fiscal year 1985: $44,800,000,000.
Fiscal year 1986: $51,000,000,000.
Fiscal year 1987: $56,100,000,000.
Fiscal year 1988: $61,300,000,000.

and the amounts for Federal Insurance Contributions Act revenues for old-age, survivors, and disability insurance within the recommended levels of Federal revenues are as follows:

Fiscal year 1985: $186,200,000,000.
Fiscal year 1986: $200,700,000,000.
Fiscal year 1987: $216,900,000,000.
Fiscal year 1988: $248,300,000,000.

(2) The appropriate levels of total new budget authority are as follows:

Fiscal year 1985: $1,055,500,000,000.
Fiscal year 1986: $1,070,500,000,000.
Fiscal year 1987: $1,133,600,000,000.
Fiscal year 1988: $1,210,000,000,000.

(3) The appropriate levels of total budget outlays are as follows:

Fiscal year 1985: $949,100,000,000.
Fiscal year 1986: $964,400,000,000.
Fiscal year 1987: $1,010,000,000,000.
Fiscal year 1988: $1,058,500,000,000.

(4) The amounts of the deficits in the budget which are appropriate in the light of economic conditions and all other relevant factors are as follows:

Fiscal year 1985: $212,900,000,000.
Fiscal year 1986: $170,600,000,000.

Fiscal year 1987: $143,400,000,000.

Fiscal year 1988: $102,300,000,000.

(5) The appropriate levels of the public debt are as follows:

Fiscal year 1985: $1,849,300,000,000.

Fiscal year 1986: $2,090,300,000,000.

Fiscal year 1987: $2,316,900,000,000.

Fiscal year 1988: $2,529,300,000,000.

and the amounts by which the statutory limits on such debt should be accordingly increased are as follows:

Fiscal year 1985: $25,500,000,000.

Fiscal year 1986: $241,000,000,000.

Fiscal year 1987: $226,600,000,000.

Fiscal year 1988: $212,400,000,000.

(6) The appropriate levels of total Federal credit activity for the fiscal years beginning on October 1, 1984, October 1, 1985, October 1, 1986, and October 1, 1987, are as follows:

Fiscal year 1985:

(A) New direct loan obligations, $53,500,000,000.

(B) New primary loan guarantee commitments, $69,300,000,000.

(C) New secondary loan guarantee commitments, $68,200,000,000.

Fiscal year 1986:

(A) New direct loan obligations, $33,900,000,000.

(B) New primary loan guarantee commitments, $73,600,000,000.

(C) New secondary loan guarantee commitments, $68,200,000,000.

Fiscal year 1987:

(A) New direct loan obligations, $32,700,000,000.

(B) New primary loan guarantee commitments, $73,600,000,000.

(C) New secondary loan guarantee commitments, $68,200,000,000.

Fiscal year 1988:

(A) New direct loan obligations, $32,200,000,000.

(B) New primary loan guarantee commitments, $78,300,000,000.

(C) New secondary loan guarantee commitments, $68,200,000,000.

(b) The Congress hereby determines and declares the appropriate levels of budget authority and budget outlays, and the appropriate levels of new direct loan obligations, new primary loan guarantee commitments, and new secondary loan guarantee commitments for fiscal years 1985 through 1988 for each major functional category are:

(1) National Defense (050):

Fiscal year 1985:

(A) New budget authority, $292,600,000,000.

(B) Outlays, $252,000,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $302,500,000,000.

(B) Outlays, $273,100,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $323,400,000,000.

(B) Outlays, $292,100,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $346,800,000,000.

(B) Outlays, $313,000,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(2) International Affairs (150):

Fiscal year 1985:

(A) New budget authority, $25,300,000,000.

(B) Outlays, $18,000,000,000.

(C) New direct loan obligations, $11,500,000,000.

(D) New primary loan guarantee commitments, $10,300,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $21,200,000,000.

(B) Outlays, $17,600,000,000.

(C) New direct loan obligations, $9,400,000,000.

(D) New primary loan guarantee commitments, $12,300,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $20,100,000,000.

(B) Outlays, $17,100,000,000.

(C) New direct loan obligations, $9,000,000,000.

(D) New primary loan guarantee commitments, $12,300,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $20,500,000,000.

(B) Outlays, $16,800,000,000.

(C) New direct loan obligations, $9,200,000,000.

(D) New primary loan guarantee commitments, $12,300,000,000.

(E) New secondary loan guarantee commitments, $0.

(3) General Science, Space, and Technology (250):

Fiscal year 1985:

(A) New budget authority, $9,100,000,000.

(B) Outlays, $8,700,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $8,800,000,000.

(B) Outlays, $8,700,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $9,000,000,000.

(B) Outlays, $8,800,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $9,300,000,000.

(B) Outlays, $9,000,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(4) Energy (270):

Fiscal year 1985:

(A) New budget authority, $1,600,000,000.

(B) Outlays, $6,500,000,000.

(C) New direct loan obligations, $2,600,000,000.

(D) New primary loan guarantee commitments, $100,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $5,500,000,000.

(B) Outlays, $5,400,000,000.

(C) New direct loan obligations, $2,100,000,000.

(D) New primary loan guarantee commitments, $4,100,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $5,500,000,000.

(B) Outlays, $4,900,000,000.

(C) New direct loan obligations, $2,100,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $5,000,000,000.

(B) Outlays, $4,200,000,000.

(C) New direct loan obligations, $2,200,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(5) Natural Resources and Environment (300):

Fiscal year 1985:

(A) New budget authority, $12,700,000,000.

(B) Outlays, $13,100,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $12,100,000,000.

(B) Outlays, $12,400,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $12,500,000,000.

(B) Outlays, $12,200,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $12,700,000,000.

(B) Outlays, $12,300,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(6) Agriculture (350):

Fiscal year 1985:

(A) New budget authority, $24,800,000,000.

(B) Outlays, $21,000,000,000.

(C) New direct loan obligations, $13,800,000,000.

(D) New primary loan guarantee commitments, $5,700,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $20,400,000,000.

(B) Outlays, $17,600,000,000.

(C) New direct loan obligations, $14,300,000,000.

(D) New primary loan guarantee commitments, $5,700,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $20,200,000,000.

(B) Outlays, $19,100,000,000.

(C) New direct loan obligations, $13,100,000,000.

(D) New primary loan guarantee commitments, $5,700,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $19,700,000,000.

(B) Outlays, $18,900,000,000.

(C) New direct loan obligations, $12,800,000,000.

(D) New primary loan guarantee commitments, $5,800,000,000.

(E) New secondary loan guarantee commitments, $0.

(7) Commerce and Housing Credit (370):

Fiscal year 1985:

(A) New budget authority, $12,600,000,000.

(B) Outlays, $5,600,000,000.

(C) New direct loan obligations, $6,600,000,000.

(D) New primary loan guarantee commitments, $27,000,000,000.

(E) New secondary loan guarantee commitments, $68,200,000,000.

Fiscal year 1986:

(A) New budget authority, $6,000,000,000.

(B) Outlays, $2,800,000,000.

(C) New direct loan obligations, $2,700,000,000.

(D) New primary loan guarantee commitments, $26,500,000,000.

(E) New secondary loan guarantee commitments, $68,200,000,000.

Fiscal year 1987:

(A) New budget authority, $4,500,000,000.

(B) Outlays, $600,000,000.

(C) New direct loan obligations, $2,800,000,000.

(D) New primary loan guarantee commitments, $28,100,000,000.

(E) New secondary loan guarantee commitments, $68,200,000,000.

Fiscal year 1988:

(A) New budget authority, $5,000,000,000.

(B) Outlays, $2,500,000,000.

(C) New direct loan obligations, $3,000,000,000.

(D) New primary loan guarantee commitments, $29,800,000,000.

(E) New secondary loan guarantee commitments, $68,200,000,000.

(8) Transportation (400):

Fiscal year 1985:

(A) New budget authority, $29,600,000,000.

(B) Outlays, $26,100,000,000.

(C) New direct loan obligations, $300,000,000.

(D) New primary loan guarantee commitments, $300,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $27,000,000,000.

(B) Outlays, $26,100,000,000.

(C) New direct loan obligations, $200,000,000.

(D) New primary loan guarantee commitments, $300,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $28,500,000,000.

(B) Outlays, $27,700,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $300,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $28,200,000,000.

(B) Outlays, $27,600,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $300,000,000.

(E) New secondary loan guarantee commitments, $0.

(9) Community and Regional Development (450):

Fiscal year 1985:

(A) New budget authority, $8,400,000,000.

(B) Outlays, $8,700,000,000.

(C) New direct loan obligations, $1,800,000,000.

(D) New primary loan guarantee commitments, $200,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $5,800,000,000.

(B) Outlays, $7,700,000,000.

(C) New direct loan obligations, $900,000,000.

(D) New primary loan guarantee commitments, $200,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $6,200,000,000.

(B) Outlays, $6,900,000,000.

(C) New direct loan obligations, $800,000,000.

(D) New primary loan guarantee commitments, $200,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $6,600,000,000.

(B) Outlays, $6,400,000,000.

(C) New direct loan obligations, $900,000,000.

(D) New primary loan guarantee commitments, $200,000,000.

(E) New secondary loan guarantee commitments, $0.

(10) Education, Training, Employment, and Social Services (500):

Fiscal year 1985:

(A) New budget authority, $31,500,000,000.

(B) Outlays, $30,300,000,000.

(C) New direct loan obligations, $1,100,000,000.

(D) New primary loan guarantee commitments, $8,800,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $28,900,000,000.

(B) Outlays, $29,700,000,000.

(C) New direct loan obligations, $1,100,000,000.

(D) New primary loan guarantee commitments, $9,100,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $29,500,000,000.

(B) Outlays, $28,900,000,000.

(C) New direct loan obligations, $1,000,000,000.

(D) New primary loan guarantee commitments, $9,400,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $29,700,000,000.

(B) Outlays, $29,100,000,000.

(C) New direct loan obligations, $1,000,000,000.

(D) New primary loan guarantee commitments, $9,600,000,000.

(E) New secondary loan guarantee commitments, $0.

(11) Health (550):

Fiscal year 1985:

(A) New budget authority, $33,600,000,000.

(B) Outlays, $33,500,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $200,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $34,900,000,000.

(B) Outlays, $35,000,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $200,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $37,400,000,000.

(B) Outlays, $37,100,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $300,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $40,000,000,000.

(B) Outlays, $39,500,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $300,000,000.

(E) New secondary loan guarantee commitments, $0.

(12) Medical Insurance (570):

Fiscal year 1985:

(A) New budget authority, $71,800,000,000.

(B) Outlays, $65,200,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $82,200,000,000.

(B) Outlays, $68,700,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $90,800,000,000.

(B) Outlays, $74,600,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $93,500,000,000.

(B) Outlays, $82,000,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(13) Income Security (600):

Fiscal year 1985:

(A) New budget authority, $162,800,000,000.

(B) Outlays, $128,600,000,000.

(C) New direct loan obligations, $14,300,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $155,500,000,000.

(B) Outlays, $116,900,000,000.

(C) New direct loan obligations, $1,800,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $165,400,000,000.

(B) Outlays, $120,300,000,000.

(C) New direct loan obligations, $2,300,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $174,300,000,000.

(B) Outlays, $125,000,000,000.

(C) New direct loan obligations, $1,800,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(14) Social Security (650):

Fiscal year 1985:

(A) New budget authority, $195,500,000,000.

(B) Outlays, $189,300,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $211,600,000,000.

(B) Outlays, $194,900,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $226,000,000,000.

(B) Outlays, $206,000,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $266,700,000,000.

(B) Outlays, $220,200,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(15) Veterans Benefits and Services (700):

Fiscal year 1985:

(A) New budget authority, $27,200,000,000.

(B) Outlays, $26,300,000,000.

(C) New direct loan obligations, $1,300,000,000.

(D) New primary loan guarantee commitments, $16,800,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $26,800,000,000.

(B) Outlays, $26,000,000,000.

(C) New direct loan obligations, $1,300,000,000.

(D) New primary loan guarantee commitments, $15,300,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $27,000,000,000.

(B) Outlays, $26,300,000,000.

(C) New direct loan obligations, $1,200,000,000.

(D) New primary loan guarantee commitments, $17,400,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $27,400,000,000.

(B) Outlays, $26,800,000,000.

(C) New direct loan obligations, $1,200,000,000.

(D) New primary loan guarantee commitments, $20,100,000,000.

(E) New secondary loan guarantee commitments, $0.

(16) Administration of Justice (750):

Fiscal year 1985:

(A) New budget authority, $6,600,000,000.

(B) Outlays, $6,400,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $6,800,000,000.

(B) Outlays, $6,700,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $6,900,000,000.

(B) Outlays, $6,900,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $7,000,000,000.

(B) Outlays, $7,000,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(17) General Government (800):

Fiscal year 1985:

(A) New budget authority, $5,800,000,000.

(B) Outlays, $5,800,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $5,200,000,000.

(B) Outlays, $5,200,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $5,300,000,000.

(B) Outlays, $5,100,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $5,400,000,000.

(B) Outlays, $5,400,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(18) General Purpose Fiscal Assistance (850):

Fiscal year 1985:

(A) New budget authority, $6,400,000,000.

(B) Outlays, $6,400,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $4,200,000,000.

(B) Outlays, $4,800,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $4,300,000,000.

(B) Outlays, $4,300,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $2,100,000,000.

(B) Outlays, $2,600,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(19) Net Interest (900):

Fiscal year 1985:

(A) New budget authority, $129,700,000,000.

(B) Outlays, $129,700,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $142,300,000,000.

(B) Outlays, $142,300,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $151,600,000,000.

(B) Outlays, $151,600,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, $153,200,000,000.

(B) Outlays, $153,200,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(20) Allowances (920):

Fiscal year 1985:

(A) New budget authority, $300,000,000.

(B) Outlays, $300,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, —$2,200,000,000.

(B) Outlays, —$2,200,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, —$2,700,000,000.

(B) Outlays, —$2,700,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, —$2,000,000,000.

(B) Outlays, —$1,900,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(21) Undistributed Offsetting Receipts (950):

Fiscal year 1985:

(A) New budget authority, −$32,400,000,000.

(B) Outlays, −$32,400,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, −$35,000,000,000.

(B) Outlays, −$35,000,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, —$37,800,000,000.

(B) Outlays, —$37,800,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1988:

(A) New budget authority, —$41,100,000,000.

(B) Outlays, —$41,100,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

RECONCILIATION

SEC. 2. (a) Not later than June 15, 1985, the committees named in subsections (b) through (bb) of this section shall submit their recommendations to the Committees on the Budget of their respective Houses. After receiving those recommendations, the Committees on the Budget shall report to the House and Senate a reconciliation bill or resolution or both carrying out all such recommendations without any substantive revision.

SENATE COMMITTEES

(b) The Senate Committee on Agriculture, Nutrition, and Forestry shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $1,189,000,000 in budget authority and $990,000,000 in outlays in fiscal year 1986, $1,764,000,000 in budget authority and $2,420,000,000 in outlays in fiscal year 1987, and $2,179,000,000 in budget authority and $3,390,000,000 in outlays in fiscal year 1988.

(c) The Senate Committee on Armed Services shall report changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to achieve savings of $531,000,000 in budget authority and $639,000,000 in outlays in fiscal year 1986, $745,000,000 in budget authority and $1,210,000,000 in outlays in fiscal year 1987, and $838,000,000 in budget authority and $1,718,000,000 in outlays in fiscal year 1988.

(d) The Senate Committee on Banking, Housing, and Urban Affairs shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $8,640,000,000 in budget authority and $4,083,000,000 in outlays in fiscal year 1986, $9,387,000,000 in budget authority and $6,685,000,000 in outlays in fiscal year 1987, and $10,178,000,000 in budget authority and $8,287,000,000 in outlays in fiscal year 1988.

(e) The Senate Committee on Commerce, Science, and Transportation shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $1,998,000,000 in budget authority and $1,653,000,000 in outlays in fiscal year 1986, $407,000,000 in budget authority and $403,000,000 in outlays in fiscal year 1987, and $510,000,000 in budget authority and $536,000,000 in outlays in fiscal year 1988.

(f) The Senate Committee on Energy and Natural Resources shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $2,962,000,000 in budget authority and $2,253,000,000 in outlays in fiscal year 1986, $2,723,000,000 in budget authority and $2,569,000,000 in outlays in fiscal year 1987, and $2,720,000,000 in budget authority and $2,814,000,000 in outlays in fiscal year 1988.

(g) The Senate Committee on Environment and Public Works shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $719,000,000 in budget authority and $306,000,000 in outlays in fiscal year 1986, $1,208,000,000 in budget authority and $1,451,000,000 in outlays in fiscal year 1987, and $1,720,000,000 in budget authority and $2,112,000,000 in outlays in fiscal year 1988.

(h) The Senate Committee on Finance shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $0 in budget authority and $12,054,000,000 in outlays in fiscal year 1986, $0 in budget authority and $17,541,000,000 in outlays in fiscal year 1987, and $0 in budget authority and $22,267,000,000 in outlays in fiscal year 1988.

(i) The Senate Committee on Foreign Relations shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $447,000,000 in budget authority and $357,000,000 in outlays in fiscal year 1986, $1,076,000,000 in budget authority and $626,000,000 in outlays in fiscal year 1987, and $1,379,000,000 in budget authority and $530,000,000 in outlays in fiscal year 1988.

(j) The Senate Committee on Governmental Affairs shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, or (3) any combination thereof, sufficient to achieve increases in contributions and savings in budget authority and outlays as follows: $375,000,000 in contributions, $0 in budget authority and $4,276,000,000 in outlays in fiscal year 1986, $1,325,000,000 in contributions, $0 in budget authority and $8,843,000,000 in outlays in fiscal year 1987, and $1,370,000,000 in contributions, $0 in budget authority and $10,417,000,000 in outlays in fiscal year 1988.

(k) The Senate Committee on Labor and Human Resources shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $2,975,000,000 in budget authority and $1,168,000,000 in outlays in fiscal year 1986, $3,452,000,000 in budget authority and $3,009,000,000 in outlays in fiscal year 1987, and $4,078,000,000 in budget authority and $3,872,000,000 in outlays in fiscal year 1988.

(l) The Senate Committee on Small Business shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $1,443,000,000 in budget authority and $978,000,000 in outlays in fiscal year 1986, $1,385,000,000 in budget authority and $1,611,000,000 in outlays in fiscal year 1987, and $1,900,000,000 in budget authority and $1,735,000,000 in outlays in fiscal year 1988.

(m) The Senate Committee on Veterans' Affairs shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $973,000,000 in budget authority and $1,059,000,000 in outlays in fiscal year 1986, $1,213,000,000 in budget authority and $1,514,000,000 in outlays in fiscal year 1987, and $1,312,000,000 in budget authority and $1,596,000,000 in outlays in fiscal year 1988.

(n) The Senate Select Committee on Indian Affairs shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $192,000,000 in budget authority and $87,000,000 in outlays in fiscal year 1986, $201,000,000 in budget authority and $151,000,000 in outlays in fiscal year 1987, and $213,000,000 in budget authority and $181,000,000 in outlays in fiscal year 1988.

HOUSE COMMITTEES

(o) The House Committee on Agriculture shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $1,189,000,000 in budget authority and $990,000,000 in outlays in fiscal year 1986, $1,764,000,000 in budget authority and $2,420,000,000 in outlays in fiscal year 1987, and $2,179,000,000 in budget authority and $3,390,000,000 in outlays in fiscal year 1988.

(p) The House Committee on Armed Services shall report changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to achieve savings of $531,000,000 in budget authority and $639,000,000 in outlays in fiscal year 1986, $745,000,000 in budget authority and $1,210,000,000 in outlays in fiscal year 1987, and $838,000,000 in budget authority and $1,718,000,000 in outlays in fiscal year 1988.

(q) The House Committee on Banking, Finance and Urban Affairs shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $7,581,000,000 in budget authority and $3,860,000,000 in outlays in fiscal year 1986, $8,192,000,000 in budget authority and $6,242,000,000 in outlays in fiscal year 1987, and $8,850,000,000 in budget authority and $7,586,000,000 in outlays in fiscal year 1988.

(r) The House Committee on Education and Labor shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $2,409,000,000 in budget authority and $1,185,000,000 in outlays in fiscal year 1986, $2,809,000,000 in budget authority and $2,765,000,000 in outlays in fiscal year 1987, and $3,336,000,000 in budget authority and $3,506,000,000 in outlays in fiscal year 1988.

(s) The House Committee on Energy and Commerce shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $4,714,000,000 in budget authority and $7,128,000,000 in outlays in fiscal year 1986, $3,464,000,000 in budget authority and $8,975,000,000 in outlays in fiscal year 1987, and $3,618,000,000 in budget authority and $11,977,000,000 in outlays in fiscal year 1988.

(t) The House Committee on Foreign Affairs shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $447,000,000 in budget authority and $357,000,000 in outlays in fiscal year 1986, $1,076,000,000 in budget authority and $626,000,000 in outlays in fiscal year 1987, and $1,379,000,000 in budget authority and $530,000,000 in outlays in fiscal year 1988.

(u) The House Committee on Government Operations shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $0 in budget authority and $1,737,000,000 in outlays in fiscal year 1986, $0 in budget authority and $2,594,000,000 in outlays in fiscal year 1987, and $0 in budget authority and $4,632,000,000 in outlays in fiscal year 1988.

(v) The House Committee on Interior and Insular Affairs shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $540,000,000 in budget authority and $292,000,000 in outlays in fiscal year 1986, $559,000,000 in budget authority and $402,000,000 in outlays in fiscal year 1987, and $636,000,000 in budget authority and $526,000,000 in outlays in fiscal year 1988.

(w) The House Committee on Merchant Marine and Fisheries shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $251,000,000 in budget authority and $229,000,000 in outlays in fiscal year 1986, $43,000,000 in budget authority and $102,000,000 in outlays in fiscal year 1987, and $44,000,000 in budget authority and $100,000,000 in outlays in fiscal year 1988.

(x) The House Committee on Post Office and Civil Service shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, or (3) any combination thereof, sufficient to achieve increases in contributions and savings in budget authority and outlays as follows: $375,000,000 in contributions, $0 in budget authority and $4,212,000,000 in outlays in fiscal year 1986, $1,325,000,000 in contributions, $0 in budget authority and $8,694,000,000 in outlays in fiscal year 1987, and $1,370,000,000 in contributions, $0 in budget authority and $10,170,000,000 in outlays in fiscal year 1988.

(y) The House Committee on Public Works and Transportation shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $1,991,000,000 in budget authority and $507,000,000 in outlays in fiscal year 1986, $2,311,000,000 in budget authority and $1,808,000,000 in outlays in fiscal year 1987, and $2,935,000,000 in budget authority and $2,718,000,000 in outlays in fiscal year 1988.

(z) The House Committee on Small Business shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $1,443,000,000 in budget authority and $978,000,000 in outlays in fiscal year 1986, $1,385,000,000 in budget authority and $1,611,000,000 in outlays in fiscal year 1987, and $1,900,000,000 in budget authority and $1,735,000,000 in outlays in fiscal year 1988.

(aa) The House Committee on Veterans' Affairs shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $973,000,000 in budget authority and $1,059,000,000 in outlays in fiscal year 1986, $1,213,000,000 in budget authority and $1,514,000,000 in outlays in fiscal year 1987, and $1,312,000,000 in budget authority and $1,596,000,000 in outlays in fiscal year 1988.

(bb) The House Committee on Ways and Means shall report (1) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, (2) changes in laws within its jurisdiction other than those which provide spending authority as defined in section 401(c)(2)(C) of the Act, sufficient to achieve savings in budget authority and outlays, or (3) any combination thereof, as follows: $0 in budget authority and $9,904,000,000 in outlays in fiscal year 1986, $0 in budget authority and $14,488,000,000 in outlays in fiscal year 1987, and $0 in budget authority and $17,260,000,000 in outlays in fiscal year 1988.

APPROPRIATIONS

SEC. 3. (a) It shall not be in order to consider any measure making appropriations in the Senate or House of Representatives, if the enactment of such bill or resolution, as recommended by the respective Committee on Appropriations, would cause the aggregate total budget authority for function 050, National Defense, to exceed $303,200,000,000 in fiscal year 1986; aggregate total budget authority to exceed $324,100,000,000 in fiscal year 1987; and aggregate total budget authority to exceed $347,600,000,000 in fiscal year 1988.

(b) It shall not be in order to consider any measure making appropriations in the Senate or House of Representatives, if the enactment of such bill or resolution, as recommended by the respective Committee on Appropriations, would cause the aggregate total budget authority for nondefense discretionary activities to exceed $136,800,000,000 in fiscal year 1986; aggregate total budget authority to exceed $140,600,000,000 in fiscal year 1987; and aggregate budget authority to exceed $145,600,000,000 in fiscal year 1988.

(c) The provisions of subsection (a) or (b) of this section may be waived or suspended in the Senate by a majority vote of the Members voting, a quorum being present, or by unanimous consent of the Senate.

MISCELLANEOUS PROVISIONS

SEC. 4. If the Congress has not completed action by October 1, 1985, on the concurrent resolution on the budget required to be reported under section 310(a) of the Congressional Budget Act of 1974 for fiscal year 1986, then, for purposes of section 311 of such Act, this concurrent resolution shall be deemed to be the concurrent resolution required to be reported under section 310 of such Act.

SEC. 5. It shall not be in order in the House of Representatives or the Senate during fiscal years 1986 and 1987 to consider any bill, resolution, or amendment, except proposed legislation reported in response to reconciliation instructions contained in this resolution, authorizing new direct loan obligations or new loan guarantee commitments unless that bill, resolution, or amendment also provides that the authority to make or guarantee such loans shall be effective only to such extent and in such amounts as are contained in appropriation acts.

SEC. 6. It is the sense of the Congress that the previous distinction between "unified budget" and "off-budget" spending be ended, and that budget authority and outlays for the so-called "off-budget" agencies be included in the budget totals.

SEC. 7. (a) The Senate finds that—

(1) the existing tax structure of the United States distorts economic activity, leading to an inefficient use of national resources and a weakening of our domestic economic vitality and competitive posture in international markets;

(2) the relative tax burdens among various taxpayer categories are manifestly unfair insofar as they arise from differences in the capabilities of taxpayers to take advantage of complicated tax laws;

(3) the ability of the Federal Government to plan and conduct rational fiscal policy is frustrated by elaborate schemes to avoid taxation and the unintended effects of tax incentives and penalties;

(4) progressive erosion of voluntary compliance threatens the fiscal integrity of our public finances and the confidence of our citizens in the Federal Government's capacity to govern; and

(5) a number of plans, each designed to simplify and reform the Tax Code, have been before the Con-

gress for a time sufficient to allow for extensive analysis and evaluation.

(b) It is therefore the sense of the Senate that tax reform should be adopted as soon as possible, and that it should incorporate the following principles and objectives:

(1) efficiency and responsiveness to market conditions in the economic activities of American businesses and consumers;

(2) simplicity of structure and lower marginal tax rates;

(3) a fair and equitable distribution of the tax burden among all taxpayers, with relief for those below the poverty level, and incentives to bring them into the work force;

(4) a broader tax base, with deductions essential to avoid genuine hardship or to protect the economic security of the American people; and

(5) increased incentives for work, saving, and investment.

SEC. 9. It is the sense of the Senate that because the Senate requires timely reporting of legislative action on spending bills, and because the Senate requires continual control over the budget, the Director of the Congressional Budget Office shall issue a weekly report during periods when the Senate is in session detailing and tabulating the progress of congressional action on bills and resolutions providing new budget authority and changing revenues and the public debt for a fiscal year, including, but not limited to the requirements set forth in Public Law 93–344, section 308(b).

Calendar No. 17

99TH CONGRESS
1st Session

SENATE

REPORT
99-15

FIRST CONCURRENT RESOLUTION ON THE BUDGET—FISCAL YEAR 1986

MARCH 20 (legislative day, FEBRUARY 18), 1985.—Ordered to be printed

Mr. DOMENICI, from the Committee on the Budget,
submitted the following

REPORT

together with

ADDITIONAL AND MINORITY VIEWS

[To accompany S. Con. Res. 32]

The Committee on the Budget submits the following report, accompanying the First Concurrent Resolution on the Budget setting forth the Congressional Budget for the United States Government for the fiscal years 1986, 1987, and 1988, and revising the Congressional Budget for the United States Government for the fiscal year 1985, pursuant to the Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344).

Chapter I. INTRODUCTION

The budget path outlined in the First Concurrent Budget Resolution for FY 1986 recommended by the Senate Budget Committee continues the three major themes uppermost on the Committee's fiscal agenda since 1981: the lowest possible tax rates on working men and women, substantial restraint throughout the entire Federal budget, and a strong national defense. Above all, the budget recommended by the Committee recognizes that the greatest danger to the Nation's future is the unprecedented budget deficits projected if no changes in the Government's spending habits occur. Indeed, despite great achievements against deficits in each of the last 4 years, deficits are projected to rise *even with relatively optimistic economic projections* to almost $250 billion. Rising deficits, even in the middle of a strong economic recovery, would be unique in recent American economic history.

Central to the Committee's recommendation is the simple premise that Government must cut its overhead: the Federal Government cannot spend at current rates during the next 3 years. Without spending restraint of the most severe magnitude, deficit-reduction cannot occur. Every witness who testified this winter before the Committee agreed that without severe deficit cuts, the Nation's economy cannot continue its recovery. Prolonging the present economic recovery, and spreading it into sectors of the economy that have lagged well behind the general recovery, is the highest domestic priority for the Committee.

SPENDING

No part of Government spending escaped the Committee's scrutiny during development of the recommended fiscal years 1986–88 budget. Indeed, under the Committee's recommendations, every single Government program, except those for the very poor, will have its growth slowed, or its fundamental operations reformed, or be eliminated entirely from the panoply of Government activities. Such a sweeping change in Government spending habits marks an historic effort to bring Government financial commitments in line with anticipated Government revenues.

For example, the President's current services outlay projection for national defense (function 050) is $294.6 billion for FY 1986. The Committee recommendation would allow $273.1 billion, a reduction from the current services baseline of $21.5 billion. Over the 3-year period, the Committee recommends a reduction from the current services baseline of more than $100 billion in defense outlays. Yet, the Committee's recommendation would hold defense spending harmless against inflation in FY 1986, and allow 3 percent growth beyond inflation in both FY 1987 and FY 1988. Even with this restraint, the Nation will have substantially exceeded its NATO commitment of an annual average of 3 percent real growth in defense during the 1979–88 decade.

Just as defense spending growth rates would slow under the Committee's recommendation, so, too, would domestic spending growth rates. In fact, if the Committee's overall spending recommendation were to be followed by the Congress, overall Federal spending would increase by less than 2 percent in FY 1986 over the FY 1985 level.

In domestic spending, the Committee recognized that a simple freeze on spending in FY 1986 would not meet the deficit-reduction goals the Committee set for itself. Therefore, it was necessary for the Committee to recommend many changes beyond a simple freeze. The Committee further recognized that the President's budget fell far short of meeting the deficit-reduction targets the President had set for himself. The Committee determined that a critical goal was to cut the proportion of the gross national product that the deficit comprised in half and set out to meet that goal.

In the case of such programs for the poor as aid to families with dependent children (AFDC) and supplemental security income (SSI), the Committee not only rejected any restraint in spending, but, in the case of SSI, actually recommended a substantial increase for FY 1986. This reflects the Committee's general view that it is not programs for the poor that have caused the bulk of Federal deficits. In fact, the Committee's recommendations focus almost entirely on restraining those many Federal activities that are relatively new in origin and that benefit middle-class or business interests.

For example, the Committee recommends more than $2.5 billion in restraint in FY 1986 alone in the Export-Import Bank, which benefits some of the largest corporations in the world. The Committee recommends that general science and NASA activities be generally frozen at the FY 1985 level in FY 1986. The Committee recommends that energy research programs be frozen, that the strategic petroleum reserve cease for 3 years its purchase of oil, that Amtrak be cut, that user fees be charged for those who use the Government's financial and recreational resources, and that the Small Business Administration shrink. The huge majority of these programs do not serve poor or disadvantaged members of our society, but rather serve business or the middle class, which is better able to pay for these programs. This approach—making those who can pay, indeed, pay for Government benefits, but exempting the poor—carries out the Committee's commitment that budget restraint be fair and equitable.

The central themes behind the Committee's recommendation are simple, but important: restrain Government spending across-the-board, give extra consideration to those in our society who need it, and keep the burden of taxes as low as possible on working men and women. This approach, the result of many hours of work, yields $300 billion in deficit reduction during the next 3 years, all the result of spending restraint. This is the largest spending restraint package in the Nation's history.

The Committee recognized that, much rhetoric to the contrary, the Nation's working men and women are not under-taxed. In fact, the proportion of the GNP now devoted to taxes is very close to historic levels. The Committee also recognized, however, that the Federal Government has taken upon itself many tasks formerly left to the States, or tasks not attempted by any other Government entity. Pruning these new Government activities by implementing the spending recommendations of the Committee must be the highest fiscal priority.

If the Committee's spending suggestions were to be carried out, through the tools of spending caps and reconciliation instructions recommended by the Committee, a balance between spending and revenues would be in sight by 1990. This elusive goal of balance, cited as a high priority by the Congress for more than a decade, can be achieved if spending restraint of the magnitude outlined by the Committee recommendation occurs. Without such spending restraint, the Committee believes that balancing the Federal budget will remain a far-from-realized goal.

A summary of the Committee's major defense and non-defense spending recommendations follows, as well as a functional summary of the recommendations (table 1). The spending consequences of such recommendations are shown in detail in the functional portion of chapter IV, Spending.

In addition, table 2 shows the components of the Committee's deficit reduction recommendations, and table 3 shows how the Committee's deficit reduction recommendations compare to the Committee's deficit goals.

SUMMARY OF THE MAJOR PROVISIONS OF THE BUDGET RESOLUTION FOR FY 1986

Function 050: National Defense

- Provide for real growth in defense spending of 0, 3, and 3 percent for fiscal years 1986–88, respectively;
- Fully fund the President's strategic program request as well as most high priority conventional programs;
- Eliminate the supplementary military pay raise in July 1985; and
- Obtain savings by slowing growth of troubled weapon systems, various nonmajor weapon systems, and other accounts.

Function 150: International Affairs

- Fund Export-Import Bank loan program at $1.250 billion in each fiscal year 1986–88;
- Assume increase above a freeze of $400 million in appropriations for foreign military sales, as proposed by the President for Israel in FY 1986;
- Assume funding for African famine relief supplemental in FY 1985 and other supplementals proposed by the President;
- Consolidate or reduce several foreign aid programs, as proposed by the President;
- Renew funding in FY 1988 for selected multilateral development banks;
- Restrain foreign information and exchange activities; and
- Recognize that an anticipated supplemental for Israel economic aid could be accommodated in later action.

Function 250: General Science, Space, and Technology

- For FY 1986 generally freeze all programs in the function at their FY 1985 program levels. After FY 1986 increase funding based on projected inflation. Major programs in function include: National Science Foundation, National Aeronautics and Space Administration, and Department of Energy general science programs.

Function 270: Energy

- Reduce REA electric direct loan levels by $200 million and electric loan guarantee levels by $350 million in FY 1986. Loan levels increase based on inflation fiscal years 1987–88;
- Reduce the fossil energy research and development program by 9 percent in FY 1986, adjust for inflation in fiscal years 1987–88;
- Reduce funding for energy supply research and development;
- Reduce energy conservation by 7 percent in FY 1986, adjust for inflation in fiscal years 1987–88;
- Reform the uranium enrichment program so as to limit appropriations to level of revenues received from uranium enrichment sales, and accelerate payment of DOE obligations to Treasury for the Government's prior investment in the enrichment enterprise; and
- Impose a 3-year moratorium on oil acquisition funding for the strategic petroleum reserve; continue operation and maintenance funding.

Function 300: Natural Resources and Environment

- Reduce funding for discretionary public land purchases by 35 percent in FY 1986;
- Reduce soil and water conservation programs appropriations by $200 million in FY 1986;
- Freeze NOAA in FY 1986 at FY 1985 levels, adjust for inflation thereafter;
- Freeze EPA sewer construction grants program for 1 year, adjust for inflation thereafter;
- Freeze Bureau of Reclamation water project construction for 1 year, adjust for inflation thereafter;
- Reduce funding for National Park Service operation and construction; and
- Initiate recreation user fees.

Function 350: Agriculture

- Freeze agriculture research, extension, and funding for agriculture services in FY 1986 at FY 1985 levels, adjust for inflation thereafter; and
- Reform farm price support programs to achieve savings of $0.7 billion in FY 1987 and $1.3 billion in FY 1988.

Function 370: Commerce and Housing Credit

- Reduce funding for SBA programs by two-thirds and sell SBA loan assets;
- Freeze housing funds for elderly and handicapped;
- Transfer responsibility for rural housing to Department of Housing and Urban Development and terminate Farmers Home Administration rural housing programs;
- End appropriations for postal subsidies but continue reduced rates for most mailers now eligible;
- Eliminate the U.S. Travel and Tourism Administration;
- Eliminate trade adjustment assistance provided to firms by the International Trade Administration; and
- End promotion of fishery products by NOAA.

Function 400: Transportation

- Reduce urban mass transit by 25 percent in fiscal years 1986, 1987, and 1988;

- Reduce Amtrak by 30 percent in FY 1986, 43 percent in FY 1987, and 54 percent in FY 1988;

- Reduce aviation research, development, facilities, and equipment in FY 1986 only;

- Allow for pay back of ship construction differential subsidies;

- Sell Conrail;

- Reduce Federal-aid highway obligations in FY 1986 by assuming enactment of S. 391, the Interstate Highway Funding Act of 1985, and hold highway obligations at the FY 1985 level in FY 1987 and FY 1988;

- Eliminate the Local Rail Service Assistance Program, the United States Railway Association, and the Northeast Corridor Improvement Project; and

- Freeze air carrier subsidies.

Function 450: Community and Regional Development

- Reduce community development block grants by 10 percent;

- Reduce urban development action grants by 20 percent;

- Terminate the community development block grant (CDBG) loan guarantee program and section 312 rehabilitation loans;

- Terminate rental development grants;

- Impose a 2-year moritorium on rental rehabilitation grants;

- Terminate Economic Development Administration and Appalachian Regional Commission, but continue funding Appalachian highway programs out of the highway trust fund;

- Reduce the funding for TVA development programs and the Bureau of Indian Affairs; and

- Terminate SBA disaster assistance programs and transfer the SBA disaster loan portfolio to the Treasury for liquidation.

Function 500: Education, Training, Employment, and Social Services

- Terminate impact aid, part B;

- Reduce funding for other elementary and secondary education programs;

- Reduce guaranteed student loans resulting in savings of $200 million in FY 1986, about one-half the President's request. Savings could be achieved through reduction in subsidies to lender banks and guarantee agencies;

- Terminate the work incentive program;

- Reform the employment service;
- Reduce support for cultural activities;
- Eliminate the community services block grant program; and
- Reduce funding for Job Corps and other job training programs.

Function 550: Health

- Eliminate Federal medicaid payments for the supplementary medical insurance premiums of low-income individuals. States would be required to pay the full premium of the supplementary medicare coverage;
- Substantially reform health professions education funding;
- Reduce new and competing NIH awards to 5,500 per year; and
- Reform Federal employees health benefits program and require District of Columbia government to pay the employer's share for their retirees.

Function 570: Medical Insurance

- Freeze medicare payments to hospitals, some doctors, and clinical labs at their current levels in FY 1986. Payments to other smaller providers would be frozen or reformed;
- Reduce by half medicare adjustment paid to teaching hospitals;
- Increase supplementary medical insurance premium until it covers 35 percent of program costs. However, no one's benefit check would decline below current levels;
- Institute a copayment on home health visits after the 20th visit;
- Establish a voluntary medicare voucher program to encourage private health insurance enrollment;
- Extend the "working elderly" provisions adopted in 1982, allowing employers to provide their health insurance as primary coverage (medicare secondary) for workers 65 to 69 years old; and
- Improve solvency of hospital insurance trust fund by using savings in social security COLA freeze to assist this fund.

Function 600: Income Security

- Increase supplemental security income benefits by $10 per month for individuals and $15 per month for couples;

- Increase PBGC insurance premiums to ensure trust fund solvency;

- Reform railroad retirement and railroad unemployment by applying the rules for taxing social security benefits only to those railroad retirement benefits that are equivalent to social security benefits, and by extending the regular State/Federal unemployment system to railroad workers;

- Freeze the COLA for 1 year in FY 1986 for Federal civilian and military retirement programs, railroad retirement, black lung, and Federal workers compensation;

- Reform Federal civilian retirement by limiting post-1986 COLA increases to CPI minus 2 percentage points; increase employee contributions from 7 percent to 9 percent in 1987 and beyond; and increase the contribution made by the Postal Service and the District of Columbia;

- Reform the military retirement system to allow and encourage some members of the armed forces to stay in the service longer;

- Eliminate annual payments for certain public housing projects as a result of debt forgiveness;

- Reduce public housing operating subsidies;

- Reform the food stamp program by strengthening work requirements for recipients and providing a block grant at the FY 1985 level of funding for State food stamp administrative expenses; and

- Eliminate the child nutrition upper income subsidy paid to schools and institutions for meals served to children from families with incomes above 185 percent of the poverty level (about $19,600 per year for a family of four) and freeze the COLA for 1 year.

Function 650: Social Security

- Freeze the social security COLA for 1 year in FY 1986; and

- Improve administration of the social security program by increasing automation and other management improvements.

Function 700: Veterans' Benefits and Services

- Freeze the veterans compensation COLA for 1 year in FY 1986. The means-tested veterans pension program would receive a COLA in FY 1986;

- Reduce VA hospital and medical care funding;

- Allow third-party reimbursement to the VA for the cost of non-service-connected medical care provided to privately insured veterans;

- Increase VA housing loan origination fee from 1 to 3.8 percent; and
- Reduce funding for remaining discretionary VA programs to the level of the President's request.

Function 750: Administration of Justice

- Freeze all discretionary appropriated accounts in the function.

Function 800: General Government

- Levy user fees on operations of the U.S. Customs Service;
- Require Government-sponsored credit agencies to pay a fee to the Treasury when borrowing or issuing pass-through securities; and
- Reduce cost of operations of the legislative branch by 10 percent.

Function 850: General Purpose Fiscal Assistance

- Reduce general revenue sharing by one-half in FY 1986 and FY 1987 and terminate thereafter.

Function 900: Net Interest

- Adjusted to reflect savings in all other functions.

Function 920: Allowances

- Freeze Federal civilian and military pay for 1 year in FY 1986; and
- Achieve savings through management and work force reform to include: 4 percent work force reduction through voluntary attrition, 10 percent reduction in administrative expenses, 1 year delay in within-grade pay increases, and make permanent existing annual work hour calculations.

Function 950: Undistributed Offsetting Receipts

- Adjusted to reflect policy changes in other functions, primarily loss of receipts from freeze on Federal pay.

Revenues

- Adjusted to reflect policy changes in other functions but no tax increases.

Table 1

FIRST BUDGET RESOLUTION FOR FY 1986 AS REPORTED BY THE SENATE BUDGET COMMITTEE

[In billions of dollars]

			FY 1985	FY 1986	FY 1987	FY 1988
050:	National Defense	BA	292.6	302.5	323.4	346.8
		O	252.0	273.1	292.1	313.0
150:	International Affairs	BA	25.3	21.2	20.1	20.5
		O	18.0	17.6	17.1	16.8
250:	General Science, Space, and Technology	BA	9.1	8.8	9.0	9.3
		O	8.7	8.7	8.8	9.0
270:	Energy	BA	1.6	5.5	5.5	5.0
		O	6.5	5.4	4.9	4.2
300:	Natural Resources and Environment	BA	12.7	12.1	12.5	12.7
		O	13.1	12.4	12.2	12.3
350:	Agriculture	BA	24.8	20.4	20.2	19.7
		O	21.0	17.6	19.1	18.9
370:	Commerce and Housing Credit	BA	12.6	6.0	4.5	5.0
		O	5.6	2.8	0.6	2.5
400:	Transportation	BA	29.6	27.0	28.5	28.2
		O	26.1	26.1	27.7	27.6
450:	Community and Regional Development	BA	8.4	5.8	6.2	6.6
		O	8.7	7.7	6.9	6.4
500:	Education, Training, Employment, and Social Services	BA	31.5	28.9	29.5	29.7
		O	30.3	29.7	28.9	29.1
550:	Health	BA	33.6	34.9	37.4	40.0
		O	33.5	35.0	37.1	39.5
570:	Medical Insurance	BA	71.8	82.2	90.8	93.5
		O	65.2	68.7	74.6	82.0
600:	Income Security	BA	162.8	155.5	165.4	174.3
		O	128.6	116.9	120.3	125.0
650:	Social Security	BA	195.5	211.6	226.0	266.7
		O	189.3	194.9	206.0	220.2
700:	Veterans Benefits and Services	BA	27.2	26.8	27.0	27.4
		O	26.3	26.0	26.3	26.8

Table 1—Continued

[In billions of dollars]

			FY 1985	FY 1986	FY 1987	FY 1988
750:	Administration of Justice	BA	6.6	6.8	6.9	7.0
		O	6.4	6.7	6.9	7.0
800:	General Government	BA	5.8	5.2	5.3	5.4
		O	5.8	5.2	5.1	5.4
850:	General Purpose Fiscal Assistance	BA	6.4	4.2	4.3	2.1
		O	6.4	4.8	4.3	2.6
900:	Net Interest	BA	129.7	142.3	151.6	153.2
		O	129.7	142.3	151.6	153.2
920:	Allowances	BA	0.3	−2.2	−2.7	−2.0
		O	0.3	−2.2	−2.7	−1.9
950:	Undistributed Offsetting Receipts	BA	−32.4	−35.0	−37.8	−41.1
		O	−32.4	−35.0	−37.8	−41.1
	Total	BA	1,055.5	1,070.5	1,133.6	1,210.0
		O	949.1	964.4	1,010.0	1,058.5
Revenues			736.2	793.8	866.6	956.2
Deficit			212.9	170.6	143.4	102.3
Public debt			1,849.3	2,090.3	2,316.9	2,529.3

Table 2

COMPONENTS OF COMMITTEE RECOMMENDATION

[In billions of dollars]

	FY 1985	FY 1986	FY 1987	FY 1988
Baseline deficit	213.3	227.4	244.7	243.6
Revenue increases		−1.1	−2.3	−3.7
Outlay reductions:				
Comprehensive freeze		−34.4	−57.4	−76.4
Additional proposals beyond a comprehensive freeze	−0.4	−18.6	−31.4	−41.5
Debt service savings		−2.7	−10.2	−19.7
Total deficit reductions	−0.4	−56.8	−101.3	−141.3
Deficit in Committee recommendation	212.9	170.6	143.4	102.3

Table 3

DEFICIT COMPARISONS

[In billions of dollars]

	FY 1986	FY 1987	FY 1988
Baseline	227.4	244.7	243.6
President's budget request	179.5	169.1	146.7
Committee recommendation	170.6	143.4	102.3
Goal [1]	167.9	136.5	98.4
Compared to goal:			
Baseline	+59.5	+108.2	+145.2
President's budget request	+11.6	+32.6	+48.3
Committee recommendation	+2.7	+6.9	+3.9

[1] 4 percent of GNP in FY 1986, 3 percent of GNP in FY 1987, 2 percent of GNP in FY 1988.

RECONCILIATION AND "CAPS"

Reconciliation is a tool given the Congress to restrain spending under the 1974 Budget Act. It has been used in fiscal years 1981, 1982, 1983, and 1984 by the Congress. This year, the Committee uses reconciliation again to achieve savings through the actions of the individual committees of the Senate and House for fiscal years 1986–88.

In addition, the Committee recommends that "caps," or aggregate limitations on appropriations spending, be applied for fiscal years 1986–88 for both defense and non-defense discretionary spending. These caps serve two purposes. First, they insure that the limitations on defense and nondefense discretionary spending become a reality and give the Congress a tool, through a point of order, to insure this. Second, they implement the "freeze" portion of the Committee's recommendations. When reconciliation to authorizing committees is added to the appropriations caps, a truly enforceable spending restraint policy results.

Reconciliation gives the individual committees of the Senate and House the maximum power and leverage to implement the savings in spending that the Congress wishes. The final recommendation on every individual program is reserved absolutely to the committees with jurisdiction over those programs. Thus, the core of the reconciliation process is a vigorous authorizing committee process.

Tables 4 and 5 show the individual reconciliation instructions by Senate committee and a summary of the size of the appropriations "caps" recommended by the Committee.

Table 4

SUMMARY OF RECONCILIATION SAVINGS BY SENATE COMMITTEE

[In millions of dollars]

Senate committee	FY 1986		FY 1987		FY 1988	
	BA	O	BA	O	BA	O
Agriculture, Nutrition, and Forestry	−1,189	−990	−1,764	−2,420	−2,179	−3,390
Armed Services	−531	−639	−745	−1,210	−838	−1,718
Banking, Housing, and Urban Affairs	−8,640	−4,083	−9,387	−6,685	−10,178	−8,287
Commerce, Science, and Transportation	−1,998	−1,653	−407	−403	−510	−536
Energy and Natural Resources	−2,962	−2,253	−2,723	−2,569	−2,720	−2,814
Environment and Public Works	−719	−306	−1,208	−1,451	−1,720	−2,112
Finance		−12,054		−17,541		−22,267
Foreign Relations	−447	−357	−1,076	−626	−1,379	−530
Governmental Affairs		−4,276		−8,843		−10,417
Labor and Human Resources	−2,975	−1,168	−3,452	−3,009	−4,078	−3,872
Small Business	−1,443	−978	−1,385	−1,611	−1,900	−1,735
Veterans' Affairs	−973	−1,059	−1,213	−1,514	−1,312	−1,596
Select Indian Affairs	−192	−87	−201	−151	−213	−181
Total reconciliation spending savings	−22,069	−29,903	−23,561	−48,033	−27,027	−59,455
Governmental Affairs (contributions)		+375		+1,325		+1,370

Table 5

APPROPRIATION "CAPS"

[In billions of dollars]

	Budget authority		
	FY 1986	FY 1987	FY 1988
Appropriations Committee:			
Defense cap	303.2	324.1	347.6
Non-defense discretionary cap	136.8	140.6	145.6

REVENUES

The Committee voted on several overall plans that had a tax increase component and also on tax increases as a separate matter. In each case, the Committee rejected tax increases at this time, and then voted by a 12–7 margin to keep revenues at current law levels.

The Committee recognizes that no "revenue hemorrhage" afflicts the Federal budget. Taxes as a percentage of the gross national product have remained relatively constant for the past 20 years, while spending as a proportion of gross national product has increased steadily. The following table illustrates the point.

Table 6

REVENUES AND SPENDING AS A PERCENT OF GNP

	Revenues	Spending
1966	18.1	18.6
1967	19.1	20.3
1968	18.4	21.4
1969	20.5	20.2
1970	19.9	20.2
1971	18.1	20.4
1972	18.4	20.4
1973	18.4	19.6
1974	19.1	19.5
1975	18.9	22.5
1976	18.2	22.7
1977	19.1	22.0
1978	19.1	21.9
1979	19.7	21.4
1980	20.1	22.9
1981	20.8	23.5
1982	20.3	24.5
1983	18.6	25.1
1984	18.6	23.8
1985 [1]	19.0	24.8
1986 [1]	18.9	23.2
1987 [1]	18.9	22.6
1988 [1]	19.3	22.2

[1] Projected.

The Committee realizes, of course, that if spending cuts are rejected by the Congress, tax increases may occur in order to close the deficit gap. The Committee believes that tax increases should be a "last resort," to be considered only after the most stringent spending restraint.

The Committee also urges that the Congress give the most serious consideration to tax reform. Such reform will close tax loopholes that cause a misallocation of resources, penalize working men and women, and result in failure to capture revenue from corporations and individuals who have large incomes but pay little or no taxes. The Committee recommends swift but prudent action on tax reform.

ECONOMIC ASSUMPTIONS

The Committee's baseline projections are based on the same economic assumptions used by the President in his Fiscal Year 1986 budget submission. These assumptions presume that deficit reductions at least equal to the President's proposal will be enacted. Thus, the postpolicy economic assumptions in the Committee's recommendation are valid *if and only if* a major deficit reduction package is enacted. For this reason, the Committee believes that the only hope for sustained real growth and lower interest rates during the next 3 years is if deficit reduction of the magnitude recommended by the Committee becomes a reality.

The Committee's economic assumptions are different from those of the Congressional Budget Office (CBO) by relatively small amounts in the 3 years of the resolution. The most important difference is interest rates. The CBO economic assumptions, however, assume no change in current spending policies. For this reason, the CBO projects much higher interest rates during the next 5 years. The Committee assumes gradually declining interest rates *if the Committee's spending restraint is carried out.* The Committee believes that, if deficits of the magnitude projected by CBO become a reality, then the CBO economic forecast may be too optimistic and that real growth will be lower and interest rates higher than CBO projects. Many of the Committee's members believe that, without deficit cuts of the size recommended, interest rates will rise sharply and a recession will be inevitable. The Committee's economic projections are shown in table 7.

Table 7

ECONOMIC ASSUMPTIONS USED IN DEVELOPING THE COMMITTEE RECOMMENDATION

[Calendar years]

	Actual 1984	[1] 1985	1986	1987	1988	1989	1990
GNP ($ billions)	3,664.2	3,948.2	4,284.8	4,642.2	5,016.8	5,399.2	5,780.0
Percent change, annual	10.9	7.8	8.5	8.3	8.1	7.6	7.1
Real GNP:							
Percent change, annual	6.9	3.9	4.0	4.0	4.0	3.9	3.6
GNP deflator:							
Percent change, annual	3.8	3.8	4.4	4.2	3.9	3.6	3.3
CPI–W:							
Percent change, annual	3.4	4.1	4.3	4.2	3.9	3.6	3.3
Unemployment rate,[2] annual average	7.5	7.1	7.0	6.7	6.4	6.2	5.9
3-month T-bill rate, annual average	9.6	8.1	7.9	7.2	5.9	5.1	5.0

[1] These baseline economic assumptions do not reflect fourth quarter GNP revisions.
[2] All civilian workers.

MISCELLANEOUS PROVISIONS

Automatic Second Budget Resolution.—Section 4 of the resolution provides that if Congress has not enacted a Second Budget Resolution for FY 1986 by October 1, 1985, the First Budget Resolution for FY 1986 will automatically become the Second Budget Resolution for that fiscal year.

Annual Determination of Credit Activity Through the Appropriation Process.—Section 5 of the resolution prohibits the consideration of legislation which provides direct loan or loan guarantee authority unless that authority is limited to amounts provided in appropriation acts.

Off-Budget Programs.—Section 6 of the resolution expresses the sense of the Congress that the distinction between unified budget and off-budget spending be eliminated, and that henceforward all so-called off-budget authority and outlays be included in the budget totals.

Tax Reform.—Section 7 of the resolution urges that tax reform and simplification legislation be acted on as soon as possible.

CBO Scorekeeping.—Section 8 of the resolution expresses the sense of the Senate regarding the need for scorekeeping reports. The Committee recognizes the need for Members and committees of the Senate to have available the current status of congressional action with respect to the limitations on spending, revenues, and the public debt established by the most recent budget resolution. This section expresses the sense of the Senate that the Director of the Congressional Budget Office (CBO) report the progress toward these goals on a weekly basis when the Senate is in session. Such information is currently available only by request from CBO. This section would require the Director to publish this information.

CONCLUSION

The budget recommended by the Committee would save $300 billion from the path of projected Federal spending during fiscal years 1986–88. It is the largest spending restraint action ever undertaken by Congress. It would yield deficits approximately one-half the size projected under current policies and lead toward a balanced budget by FY 1990.

While the President's budget would yield deficits much higher, and exempt certain large programs from scrutiny, the Committee recommendation would exempt no program from restraint except a few programs exclusively for the poor. At the heart of the Committee's recommendation is a freeze on almost every program, no real growth at all in national defense spending in FY 1986, and reform, reduction, or termination of many domestic programs.

The Committee recommends that reconciliation and appropriations caps on spending be used to implement its suggestions and recognizes that without action of the magnitude recommended the Nation's economy may well falter into a serious recession in the future.

Chapter II. ECONOMICS

Committee Recommendation

The budget resolution adopted by the Committee recommends the largest package of spending restraint ever considered by Congress. This resolution contains deficit reductions of $56.8 billion in FY 1986, $101.3 billion in FY 1987, and $141.3 billion in FY 1988. These deficit reductions total $299.4 billion over 3 years and $669.4 billion through the end of the decade. The deficit reduction actions recommended in this budget resolution are more than twice as large as the actions the Committee endorsed last year and about 25 percent larger than the total spending reductions President Reagan proposed in his FY 1986 budget.

The deficit reduction measures contained in this budget resolution, if enacted, will reduce future-year budget deficits dramatically and put the Federal Government on a path toward a balanced budget by FY 1990. The Committee endorses the goal of reducing Federal budget deficits from their current level, which is about 5 percent of GNP in FY 1985, to 4 percent, 3 percent, and 2 percent of GNP in FY 1986, FY 1987, and FY 1988, respectively. The budget deficits contained in this budget resolution, $170.6 billion in FY 1986, $143.4 billion in FY 1987, and $102.3 billion in FY 1988, essentially achieve this goal. Table 1 summarizes the Committee's recommendation.

44-839 O—85——6

Table 1

BUDGET PROJECTIONS

[In billions of dollars]

	Actual	Recommendation				Projection	
	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990
Budget authority	949.8	1,055.5	1,070.5	1,133.6	1,210.0	1,272.7	1,337.1
Outlays	851.8	949.1	964.4	1,010.0	1,058.5	1,094.1	1,132.0
Revenues	666.5	736.2	793.8	866.6	956.2	1,032.3	1,110.5
Deficit	185.3	212.9	170.6	143.4	102.3	61.8	21.5
Public debt subject to limit	1,573.0	1,849.3	2,090.3	2,316.9	2,529.3	2,718.9	2,889.5
Outlays as a percent of GNP	23.8	24.5	23.0	22.2	21.5	20.6	19.9
Revenues as a percent of GNP	18.6	19.0	18.9	19.0	19.4	19.5	19.5
Growth in outlays (percent)	5.4	11.4	1.6	4.7	4.8	3.4	3.5
Adjusted for inflation	2.2	7.7	−2.4	0.3	0.4	−1.0	−0.6
Growth in revenues (percent)	11.0	10.5	7.8	9.2	10.3	8.0	7.6
Adjusted for inflation	6.9	6.5	3.3	4.7	6.1	4.1	4.1
Growth in public debt (percent)	14.2	17.6	13.0	10.8	9.2	7.5	6.3
GNP	3,581.1	3,868.5	4,198.5	4,550.9	4,921.7	5,304.0	5,684.1

The economic assumptions used in this budget resolution explicitly recognize the economic benefits from dramatic fiscal policy action. These assumptions are the same as the baseline economic assumptions presented in the President's budget and are consistent with public statements by Federal Reserve Board Chairman Volcker and many private sector economists regarding the effect on financial markets from substantial deficit reduction action. These economic assumptions are similar to, although less optimistic than, the overall performance of the economy during the 1960's—a period generally regarded as a desirable economic goal. These economic assumptions are also only slightly more favorable than the economic performance during the late 1970's when the economy was generally viewed as troubled. These economic assumptions also compare favorably with estimates from private forecasting firms of the economic effects, particularly the interest rate effects, of deficit reduction packages which are significantly smaller than the Committee's recommendations.

The policies adopted by the Committee reflect the view that deficit reductions should be accomplished through a substantial and permanent reduction in the growth in Federal spending. To this end, the Committee recommends spending reductions of $55.7 billion in FY 1986, $99.0 billion in FY 1987, and $137.6 billion in FY 1988. These policies would result in a sharp decline in the growth in Federal spending from 11.4 percent in FY 1985 to 1.6 percent in FY 1986. Because this resolution proposes to return the funding for many Federal programs to current policy levels in FY 1987 and after, the average growth rate in Federal spending in FY 1987 through FY 1990 is 4.1 percent. Still, the growth in Federal spending will be substantially lower than the 11.2 percent average growth over the last 5 years.

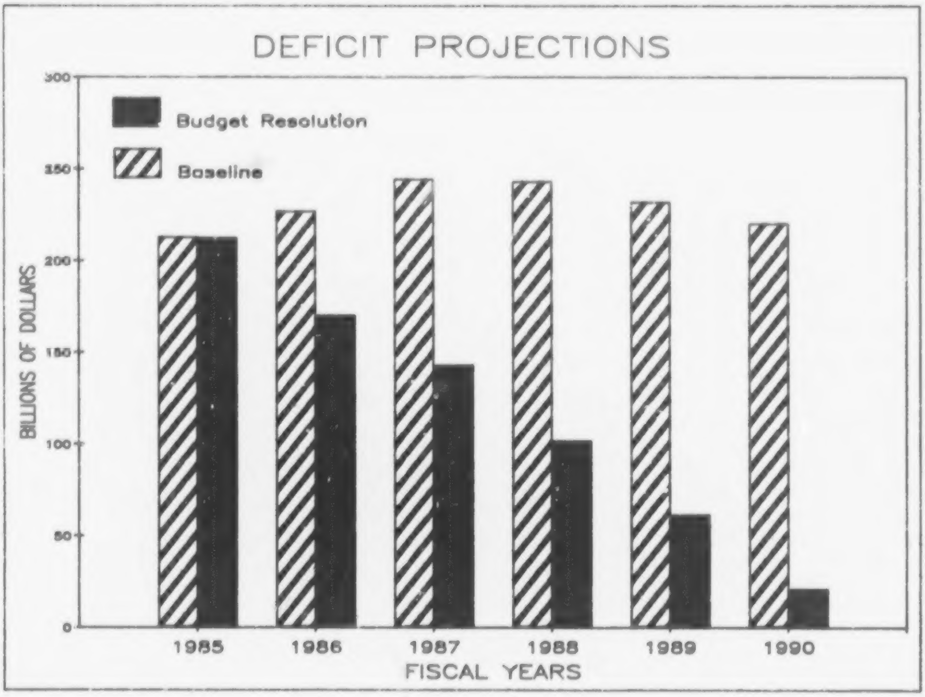
The scope and depth of the spending reductions, which touch almost every program of the Federal Government, reflect the Committee's judgment that the most critical economic issue now facing this Nation is the enormous size and growth in the Federal budget deficit. Not only do these deficits endanger the Nation's prospect for stable, acceptable rates of economic growth in the long term, but they affect the stability of financial markets and the level and concentration of growth currently.

The Committee's action is influenced by a rise in interest rates last year that is a clear signal of what the economy will face as the expansion matures. Indeed, interest rates have risen almost a full percentage point over the past month. Mortgage rates have stopped falling. A rise in the prime rate may not be far off. Financial markets are clearly concerned about a debt-driven run-up in interest rates this spring as a result of rapid growth in both private and Government credit demand.

However, the Committee's action is even more directly responsive to the serious structural problems that result both in the United States and in other countries from the deficit problem. A rising dollar and high real interest rates have a devastating effect on growth in interest-dependent sectors of the economy, especially those sensitive to international trade trends. Production, employment, and income patterns in key basic industries, especially agriculture, have remained depressed. Imports into the United States are growing by 26 percent per year in real terms and exports are growing only 5 percent in real terms (and then only under tremendous price pressure as a result of the rising dollar). Moreover, the ever-widening trade deficit in the United States must be financed by capital which would otherwise be available for growth abroad. A growing disparity between the living standards of the United States and other countries cannot be sustained indefinitely—especially when the benefits of economic growth are not shared by all regions and industries in the United States. Although there are many specific constituencies that may be affected by reductions in Federal spending, it is clear that there are also many groups, both businesses and workers, who currently are paying the price of the present budget and trade imbalances.

The Committee's recommendation addresses this very real problem by moving in a dramatic way to virtually eliminate the Federal budget deficit. This will bring Federal borrowing requirements and, hopefully, interest rates down to levels that are consistent with continued economic growth and price stability. Chart 1 compares the budget deficit implied by current policy with the Committee's recommendation. Under the Committee's recommendation the deficit is completely eliminated by 1990.

Chart 1



Economic Assumptions in the Budget Resolution

The economic assumptions used to develop the spending and revenues estimates in the markup baseline are shown on table 2. These economic assumptions are the same as the baseline economic assumptions presented in the President's FY 1986 budget request. These assumptions show the economy growing at a moderate pace through the end of the decade. However, the baseline interest rates, which decline both in nominal and real terms over the decade, assume that substantial deficit reduction at least equal to that proposed by the President is enacted in FY 1986 and future years. The President's budget recommends changes in law to reduce budget deficits by $51 billion in FY 1986, $83 billion in FY 1987, and $105 billion in 1988, for a total 3-year savings of $239 billion. The deficit reductions in the Committee's recommendation total $299.4 billion over the 3 years. If this action is not forthcoming, Federal budget deficits could rise to $300 billion by the end of the decade as projected by the Congressional Budget Office in its recent annual report. Indeed, if the economy enters a recession, Federal budget deficits may well exceed $400 billion by FY 1990.

Table 2

ECONOMIC ASSUMPTIONS USED IN DEVELOPING THE COMMITTEE RECOMMENDATION

[Calendar years]

	Actual 1984	1985 [1]	1986	1987	1988	1989	1990
GNP ($ billions)	3,664.2	3,948.2	4,284.8	4,642.2	5,016.8	5,399.2	5,780.0
Percent change, annual	10.9	7.8	8.5	8.3	8.1	7.6	7.1
Real GNP:							
Percent change, annual	6.9	3.9	4.0	4.0	4.0	3.9	3.6
GNP deflator:							
Percent change, annual	3.8	3.8	4.4	4.2	3.9	3.6	3.3
CPI–W:							
Percent change, annual	3.4	4.1	4.3	4.2	3.9	3.6	3.3
Unemployment rate,[2] annual average	7.5	7.1	7.0	6.7	6.4	6.2	5.9
3-month T-bill rate, annual average	9.6	8.1	7.9	7.2	5.9	5.1	5.0

[1] These baseline economic assumptions do not reflect fourth quarter GNP revisions.

[2] All civilian workers.

ECONOMIC BENEFITS OF BUDGET ACTION

Economists frequently concentrate on the economic problems associated with large and growing budget deficits and less frequently address the issue of what might be expected of the economy in the event that these deficits decline dramatically. The Congressional Budget Office (CBO) analysis of the President's budget indicates that "economists disagree sharply over how the economy might react to different deficit-reducing measures." However, CBO indicates in its annual report to Congress that a credible attack on budget deficits should "improve expectations in financial markets and make longer term investments more attractive."

In general, economists appear to agree that a major effect of reducing budget deficits would be to lower the current high level of real interest rates. In testimony in 1983 before the Senate Banking Committee, Federal Reserve Board Chairman Volcker indicated that interest rates might be 1 percentage point lower than they otherwise would be if the deficit were reduced by $50 billion in the first budget year. The interest rates assumed in this budget resolution are consistent with Chairman Volcker's statements given the policies adopted by the Committee. Testimony by Martin Feldstein, Alan Greenspan, and Charles Schultze before the Senate Finance Committee in January suggests that the magnitude of the decline in interest rates might be much larger, as much as 2 to 3 percentage points.

The economic assumptions in the Committee's recommendation are also consistent with estimates by private forecasters. Only the President's projections assume a budget package that even approximates the size and mix of the Committee's recommendation. It is extremely difficult to estimate the precise effect of a budget package of this size. However, most other forecasters assume some fiscal policy actions and a comparison between the budget resolution assumptions and these private estimates provides a useful guide.

Data Resources, Inc., for example, assumes only that Congress will enact a "further downpayment package effective in late 1985 that only slightly eases the deficit problem." This package is roughly $30 billion in the first year which is only slightly more than half the size of the Committee's recommendation. As a result, Data Resources assumes that the budget deficit will remain around $200 billion through 1990.

Chase Econometrics assumes stalemate through most of 1985 with a budget compromise arising late in the year. This compromise is assumed to "take the form of small tax raising measures" to begin in calendar 1986. The Chase forecast also assumes that Federal deficits will remain over $200 billion for much of the decade.

Merrill Lynch Economics is one of the few firms which assumes that any substantial action will take place to reduce the budget deficit. Merrill Lynch, however, assumes a package of tax and spending measures substantially different from the Committee recommendation. Merrill Lynch assumes that Congress will adjust the cost-of-living allowances (COLA's) for non-means-tested entitlements to CPI minus 2 percent but maintain a minimum increase of 3 percent. The Committee freezes the COLA's for all Federal retirees in fiscal year 1986. Merrill Lynch assumes that defense spending will increase 6 percent in real terms, compared to the Administration's 7 percent request. The Committee recommendation permits no real growth for defense. Merrill Lynch further assumes that Congress will make minor reductions in revenue sharing and agricultural programs, modify indexing of the tax code to CPI minus 2 percent, cap all itemized interest deductions, limit the deductibility of State and local sales taxes and add new excise taxes. Clearly, Merrill Lynch is assuming major tax increases with only a few spending reductions. In their estimate, the cumulative budget savings from these deficit actions will be about $300 billion over 4 years. Actually, the savings from these specific policies is likely to be quite a bit lower. The Committee recommendation contains $470 billion over 4 years—substantially larger than the Merrill Lynch package. Merrill Lynch assumes that the deficit will remain at about $100 billion in 1990. By 1990, the budget in the Committee recommendation is near balance.

The following table compares the Chase, Data Resources, and Merrill Lynch forecasts to the Committee recommendation. This table shows that although there are significant differences among the private forecasts and between the private forecasts and the Committee in the 1988–90 period, these differences are small given the wide variation in policy assumptions. All the forecasts have "real" interest rates significantly below current levels in 1990 both in nominal and real terms. "Inflation-adjusted" short-term interest rates are roughly 1.5 to 3 percent by 1990. The real short-term interest rate assumed in the budget resolution declines to 1.7 percent by 1990. The private forecasters estimate real long-term interest rates at roughly 4 to 4.5 percent in 1990 despite the generally modest size of their relative budget packages and the high level of the Federal deficit expected at that time. This compares to a 2.0 percent real long-term interest rate assumed by the Committee in 1990 which results from deficit reductions of $669.4 billion over the 5 years and a budget that is near balance.

Table 3

COMPARISON OF LONG-TERM FORECASTS

[Calendar year average]

	1985	1986	1987	1988	1989	1990
Nominal GNP (percent change):						
Chase Econometrics	7.7	6.9	8.6	8.2	8.0	7.8
Data Resources	5.8	7.4	8.8	8.9	8.9	9.0
Merrill Lynch Economics	7.6	7.8	9.3	8.7	8.6	8.0
Budget resolution assumptions	7.8	8.5	8.3	8.1	7.6	7.1

Table 3—Continued

[Calendar year average]

	1985	1986	1987	1988	1989	1990
Real GNP (percent change):						
Chase Econometrics (2/85)	3.4	2.5	3.7	3.3	3.1	3.0
Data Resources (12/84)	2.1	3.1	3.9	3.3	3.2	3.1
Merrill Lynch Economics (9/84)	3.0	2.5	3.7	3.2	3.1	2.9
Budget resolution assumptions	3.9	4.0	4.0	4.0	3.9	3.6
Consumer Price Index (percent change):						
Chase Econometrics	3.7	4.7	5.1	5.2	4.3	4.8
Data Resources	3.8	4.3	4.8	5.4	5.6	5.9
Merrill Lynch Economics	5.0	4.7	5.2	5.1	5.0	4.8
Budget resolution assumptions	4.1	4.3	4.2	3.9	3.6	3.3
Unemployment rate:						
Chase Econometrics	7.1	7.2	6.3	6.1	5.8	5.7
Data Resources	7.6	7.7	7.3	7.1	7.1	7.0
Merrill Lynch Economics	7.4	7.5	6.9	6.7	6.4	6.1
Budget resolution assumptions	7.1	7.0	6.7	6.4	6.2	5.9
3-month Treasury bill rate:						
Chase Econometrics	8.8	8.8	8.7	8.5	7.9	7.4
Data Resources	8.0	8.7	9.5	9.1	8.2	7.3
Merrill Lynch Economics	10.9	9.4	9.3	9.1	8.8	8.2
Budget resolution assumptions	8.1	7.9	7.2	5.9	5.1	5.0
"Real" 3-month Treasury bill rate:						
Chase Econometrics	4.7	4.6	4.0	3.8	3.1	2.7
Data Resources	4.3	4.6	4.8	3.7	2.7	1.6
Merrill Lynch Economics	6.4	4.3	3.9	3.8	3.5	3.2
Budget resolution assumptions	4.3	3.5	3.0	2.0	1.5	1.7
"Real" long-term bond rate:						
Chase Econometrics	7.7	7.3	6.6	6.4	5.1	4.3
Data Resources	7.2	6.8	6.5	6.0	5.2	4.4
Merrill Lynch Economics	7.8	5.7	4.6	4.6	4.6	4.5
Budget resolution assumptions	7.2	5.9	5.1	3.4	2.1	2.2

Another standard for judging the reasonableness of the Committee's assumptions—and possibly a more accurate one—is historical experience. Often during the late 1970's budget resolutions attempted to achieve economic goals that proved to be far superior to prior economic performance. In retrospect, this often led to policies that were actually damaging to long-term growth and price stability.

One standard, for example, might be to compare the Committee's assumptions to economic performance during the 1960's. The economic expansion during the 1960's lasted 106 months. During this period the economy grew more than 35 percent and real interest rates averaged 2.1 percent. The Committee assumes that the economy will grow 31.4 percent from the trough of the recession through 1988—actually less than the 1960's expansion. The Committee also assumes that real interest rates will remain relatively high, declining only to 3.4 percent by FY 1988. Real interest rates are assumed to decline to 2.0 percent in 1989 and 1990. Chart 2 compares the cumulative economic growth during the first 6 years of the 1960's expansion to the cumulative growth assumed in the budget resolution. Chart 3 compares the average real long-term interest rate during the 1960's to the real interest rates assumed in the budget resolution.

Chart 2

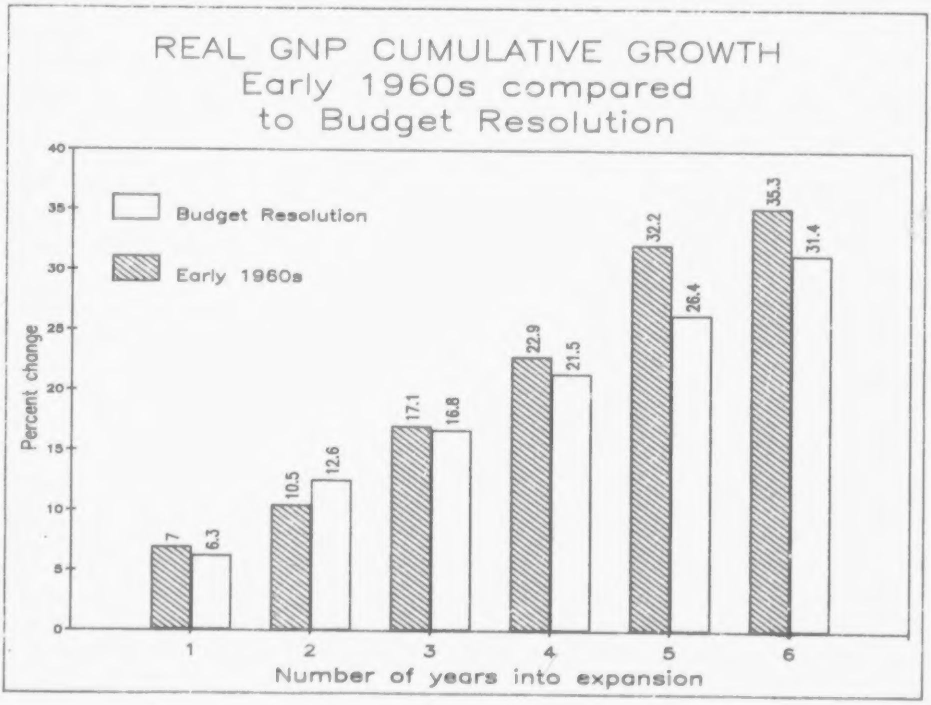
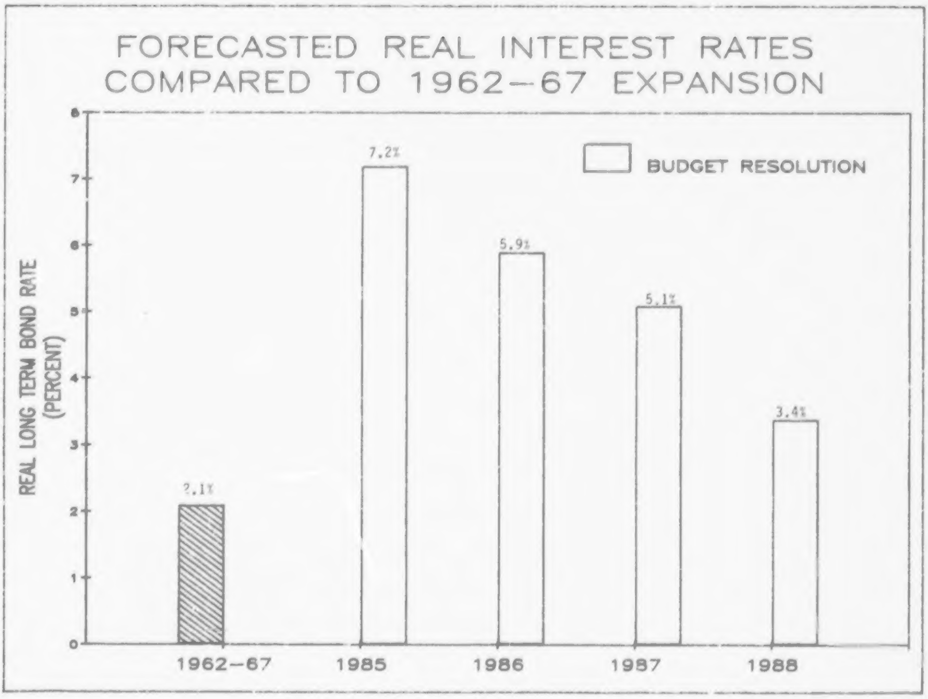


Chart 3



Of course, the 1960's was one of the longest periods of sustained growth and low inflation in the Nation's history. Another test of reasonableness is to compare the economic assumptions in the budget resolution to the experience during the late 1970's. The economic expansion following the 1973–75 recession lasted 58 months. The environment was very different from the 1960's. The economy was hit by a second major oil shock, inflation began to accelerate in 1977, nominal interest rates began to rise sharply in 1978, and monetary policy, in particular, added to unrest in financial markets. Chart 4 compares the cumulative real growth in the late 1970's to the assumptions in the budget resolution. Looking out through 1987, the assumptions in the budget resolution presume no better growth than existed during the late 1970's. It is also true that if the experience of the 1970's is any guide, economic policy can clearly hasten a recession. Budget policies that move in a determined way to eliminate the structural budget deficit can help sustain growth and the recent hard won gains against inflation. Chart 5 compares the real interest rates in the budget resolution to those that prevailed during the late 1970's. One policy problem of the period is evident. The average real long-term interest rate during the 1975–80 expansion was 1.0 percent and it was actually negative in 1975. The budget resolution assumes that real interest rates remain relatively high throughout the 1980's, and in no case do they decline to near 1.0 percent.

Chart 4

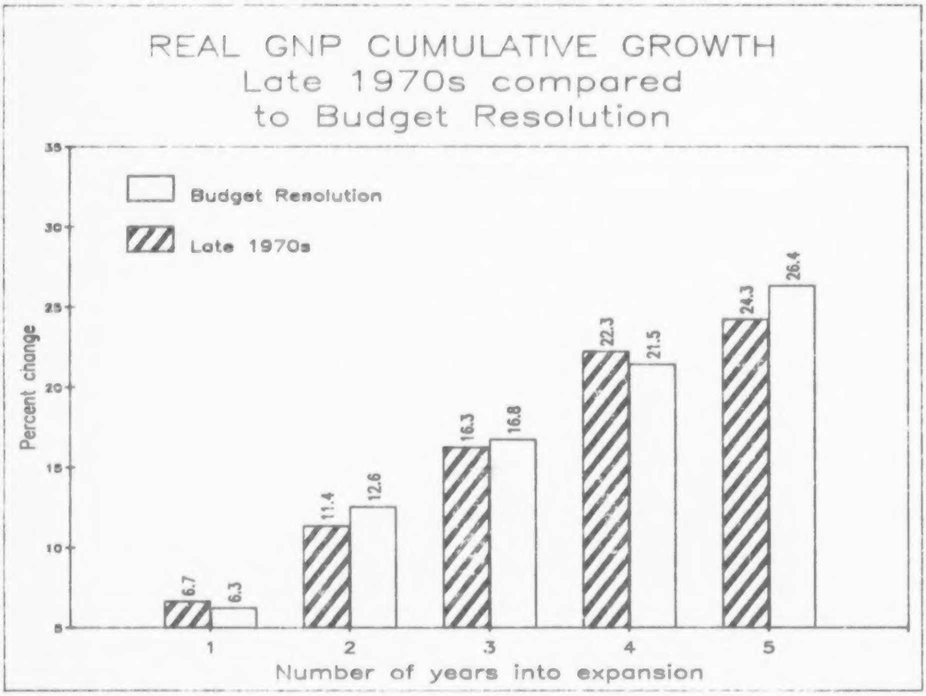
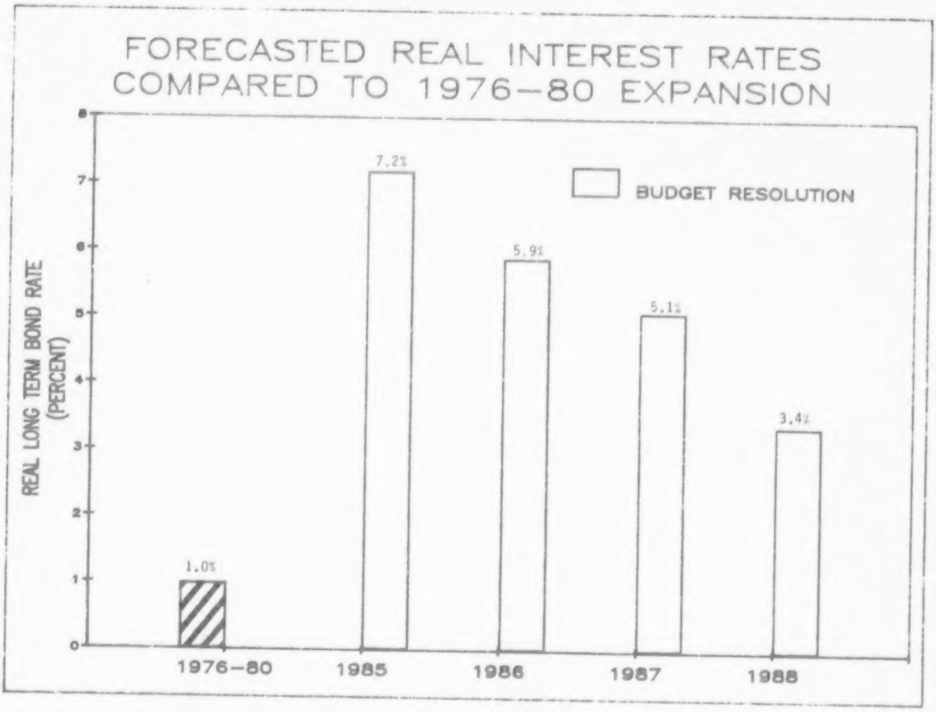

REAL GNP CUMULATIVE GROWTH
Late 1970s compared
to Budget Resolution
Budget Resolution
Late 1970s
Percent change
35
30
25
20
15
10
5
6.7
6.3
11.4
12.6
16.3
16.8
22.3
21.5
24.3
26.4
1
2
3
4
5
Number of years into expansion

Chart 5



COMPARISON TO CBO CURRENT POLICY BASELINE

The economic assumptions in the CBO annual report are a good proxy for what the economy is likely to do in the event that no action is taken. In his testimony before the Senate Appropriations Committee earlier this year, CBO Director Dr. Rudy Penner indicated that the CBO economic assumptions "provide a basis for evaluating the 'static' or 'direct' budgetary impacts of proposed changes in spending and tax provisions—that is, the impacts measured before any consideration is given to changes in the economy that might be caused by the policy changes and the impacts that such changes in the economy might in turn have on the budget."

As Dr. Penner indicated, "almost all of the difference between CBO and the administration derives from their differing economic assumptions (and) most of the economic differences result, in turn, from a difference in assumed interest rates, which become quite substantial in 1989 and 1990." The economic assumptions in the budget resolution, as indicated earlier, assume the full economic impact of the Committee's recommended policies. In both his testimony before the Senate Appropriations Committee and the Senate Budget Committee, the CBO Director indicated that the President's forecast was within the average error of even the CBO's current policy forecast and were "very certainly" not unreasonable in light of the President's policies. The Committee actually recommends larger deficit reductions than does the President, and, therefore, the Committee believes it is appropriate to use the same economic assumptions as the President.

Table 4 compares the Committee economic assumptions to the CBO current policy assumptions. As this table shows, the differences between these assumptions are really quite small except for the difference in interest rate assumptions in 1989 and 1990. Chart 6 shows the differences between the CBO pre-policy forecast and the Committee's post-policy assumptions for cumulative real GNP growth. By FY 1986, the differences in growth rates in the two forecasts yield less than a 2-percent difference in the real GNP levels, and by 1990 the difference between the total growth projected in the two forecasts is less than 3.5 percent. Chart 7 shows the differences in real interest rates. The Committee's assumptions project historically high real interest rates through 1988. Only in FY 1989 and FY 1990 do these real rates decline to levels considered normal in the past (e.g., the 1960's). CBO projects real long-term interest rates to remain at about 6.0 percent through the end of the decade.

Table 4

COMPARISON OF ECONOMIC ASSUMPTIONS: BUDGET RESOLUTION VS. CBO

[Calendar years]

	1985	1986	1987	1988	1989	1990	Percent change	
							1984:4 to 1985:4	1985:4 to 1986:4
Gross National Product:								
Current dollars:								
Budget resolution	3,948.2	4,284.8	4,642.2	5,016.8	5,399.2	5,780.0	8.5	8.5
CBO	3,926.9	4,237.5	4,567.4	4,920.8	5,301.4	5,711.4	7.7	7.8
	Percent change (year to year)							
Constant (1972) dollars:								
Budget resolution	3.9	4.0	4.0	4.0	3.9	3.6	4.0	4.0
CBO	3.5	3.2	3.3	3.4	3.4	3.4	3.4	3.1
Prices:								
GNP deflator:								
Budget resolution	3.8	4.4	4.2	3.9	3.6	3.3	4.3	4.3
CBO	3.6	4.6	4.4	4.2	4.2	4.2	4.2	4.6
CPI–W:								
Budget resolution	4.1	4.3	4.2	3.9	3.6	3.3	4.2	4.3
CBO	3.8	4.5	4.2	4.2	4.2	4.2	3.9	4.5

Table 4—Continued

[Calendar years]

	1985	1986	1987	1988	1989	1990	Percent change	
							1984:4 to 1985:4	1985:4 to 1986:4
	Percent							
Civilian unemployment rate:								
President	7.1	7.0	6.7	6.4	6.2	5.9		
CBO	7.1	6.9	6.7	6.6	6.4	6.2		
3-month T-bill rate:								
President	8.1	7.9	7.2	5.9	5.1	5.0		
CBO	8.3	8.7	8.2	8.2	8.2	8.2		
Long Treasury bond rate:								
President	11.0	10.3	9.3	7.3	5.7	5.5		
CBO	11.1	10.6	10.2	10.2	10.2	10.2		
"Real" interest rate: [1]								
President	7.2	5.9	5.1	3.4	2.1	2.2		
CBO	7.5	6.0	5.8	6.0	6.0	6.0		

[1] "Real" interest rates are defined here as the long Treasury bond rate minus the rate of inflation as measured by the GNP deflator.

Chart 6

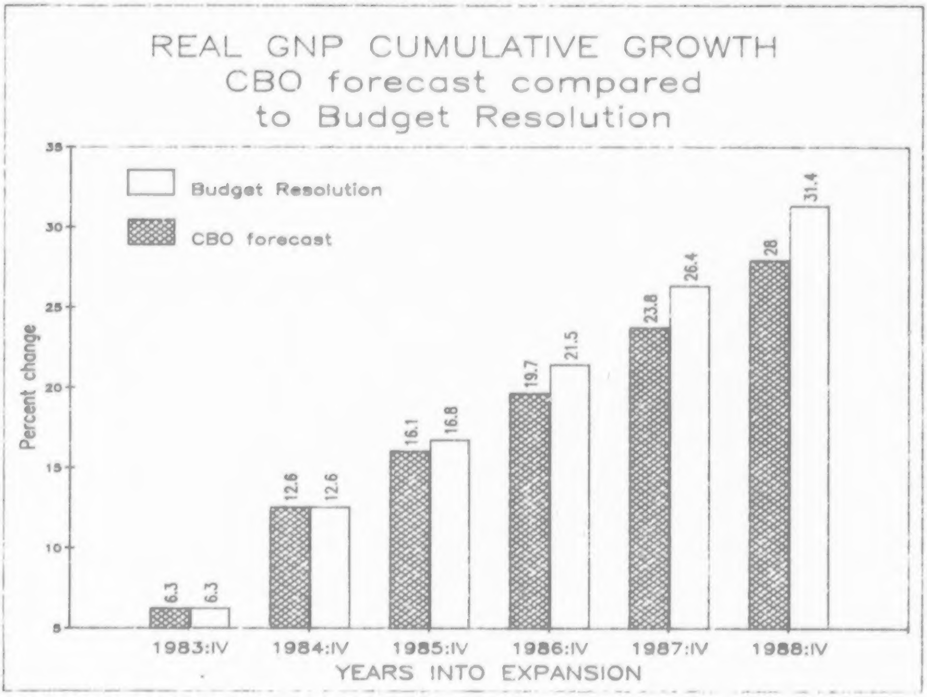
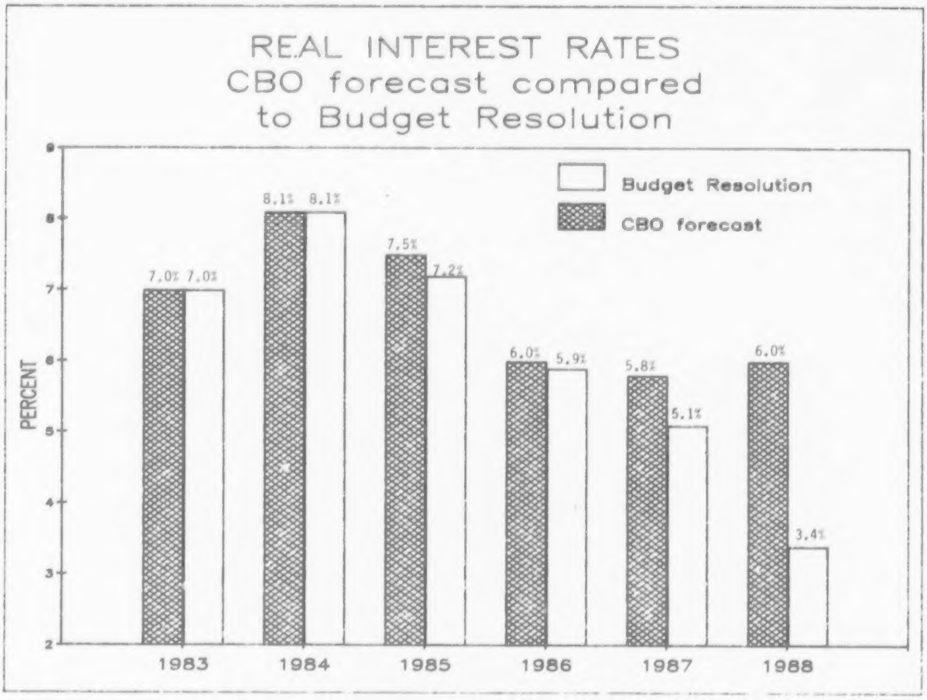

REAL GNP CUMULATIVE GROWTH
CBO forecast compared
to Budget Resolution
Budget Resolution
CBO forecast
Percent change
35
30
25
20
15
10
5
6.3
6.3
12.6
12.6
16.1
16.8
19.7
21.5
23.8
26.4
28
31.4
1983:IV
1984:IV
1985:IV
1986:IV
1987:IV
1988:IV
YEARS INTO EXPANSION

Chart 7



In fact, despite the dramatic policy actions recommended in this budget resolution, the Committee's economic assumptions are actually well within the range of error in the CBO current policy analysis, shown in Appendix H in the CBO annual report.

Table 5 summarizes the sources of economic differences between the CBO baseline using the Committee's economic assumptions and the CBO baseline using the CBO current policy economic forecast. It is clear from this table that the economic differences between the two forecasts are quite small until 1988. After 1988, the differences grow but only because of lower interest cost due to lower interest rates. The post-policy economics used in this budget resolution are similar in approach to the post-policy assumptions that were made explicitly in the FY 1983 budget resolution reported by this Committee.

Table 5

SUMMARY OF ECONOMIC DIFFERENCES: COMMITTEE VS. CBO

[In billions of dollars]

	1985	1986	1987	1988	1989	1990
Revenues	−1.3	−4.2	−9.0	−18.3	−22.2	−18.2
Outlays:						
Benefits	−0.1	+0.9	+0.4	−0.3	−1.8	−4.1
Civilian pay	(*)	+0.3	+0.7	+1.0	+1.2	+1.0
Interest:						
Due to rates	−0.1	−2.8	−5.1	−18.0	−42.5	−72.0
Due to lower deficits	−0.1	−0.5	−1.4	−3.5	−6.8	−11.4
Total effect on deficit	−1.5	−6.2	−14.4	−38.9	−72.1	−104.5

* Less than $50 million.

OVERVIEW OF THE ECONOMY

Last year at this time, the economy was poised for a surge in growth. Personal income and employment were growing quite rapidly. Consumer confidence was approaching its all time peak. The indicators which tend to lead changes in the economy were on the rise, as indicated by healthy increases in the index of leading indicators. The consensus forecast for real growth in 1984 was 5.3 percent, up substantially from 1983's 3.7 percent growth rate.

The economy broke loose in the first half of 1984. The economy generated over 2 million new jobs between January and June, and the civilian unemployment rate fell 0.8 percent, from 8.0 percent to 7.2 percent. Housing starts averaged 1.93 million units at an annual rate, and constant dollar personal consumption expenditures rose at an annual rate of 6.3 percent.

The economy then experienced a dramatic slowdown in the third quarter, prompting some forecasters to announce prematurely the beginning of the end of the expansion. The third quarter turned out to be a typical mid-stream event in the life of a business cycle—a slowdown followed by continued growth at a fairly rapid pace, but not as rapid as in the early stages of the recovery. Fourth quarter growth bounced back at a 4.9-percent annual rate, dispelling any evidence of a "growth recession." Overall real growth was 6.9 percent in 1984, over 1.5 percentage points higher than any forecaster had predicted at the beginning of the year, and the highest 1-year growth since 1951.

Recent economic indicators point to a surge in growth in the first half of 1985, reminiscent of the 1984 first half. Auto production in the second half of 1984 was suppressed by strikes in the United States and Canada, and producers announced plans to make up for that lost output in the first quarter of 1985. Autos were produced at a 7.7 million unit annual rate in the fourth quarter of 1984; the production rate has averaged 8.4 million units in the first 2 months of 1985. Some estimates suggest that this increased auto production alone could add 2 percentage points to the growth rate in the first quarter.

Other current trends in the economy resemble early 1984. Housing starts increased over 15 percent in January 1985; in January 1984 housing starts rose about 17 percent. Employment growth has been quite strong, rising by about 260,000 each month since November. Over the past 3 months, however, the labor force has grown at an average annual rate of 3.6 percent, roughly twice the projected long-term trend, so there has been little improvement in the overall unemployment rate. If the growth in labor force returns to more normal rates, the unemployment rate could drop rapidly, similar to early 1984. Personal income is also increasing at moderate rates. The stock market has recently approached new peaks, which reflects historically high consumer confidence both in their near-term economic and longer run financial outlook. Consumer prices rose 4 percent in 1984; in the past 3 months the rate of inflation has declined to an annual rate of only 2.5 percent.

The improvement in the economy is reflected in a steady rise in economists' forecasts for the 1985 growth rate. Table 6 shows how various real growth estimates for 1985 have risen in recent months. In December, the consensus forecast for real growth in 1985 was 3.1 percent. By March, the consensus rose to 3.9 percent. Economic evidence at this stage of the expansion indicates that growth in 1985 will be significantly higher than the 3.7 percent growth in 1983. Some forecasts now show a real growth rate for 1985 that is actually above the Committee's assumption.

Table 6

FORECASTS FOR REAL GROWTH

[Calendar year]

Organization	Date of forecast	Projected growth rate (1985)
Budget resolution	January 23, 1985	3.9
CBO	January 25, 1985	3.5
Blue Chip Consensus	December 10, 1984	3.1
	January 10, 1985	3.3
	February 10, 1985	3.7
	March 10, 1985	3.9
Chase Econometrics	November 26, 1984	2.5
	December 26, 1984	2.8
	January 28, 1985	3.4
	February 26, 1985	3.7

Table 6—Continued

[Calendar year]

Organization	Date of forecast	Projected growth rate (1985)
Data Resources, Inc	November 26, 1984	2.1
	December 23, 1984	2.5
	January 26, 1985	3.3
	February 25, 1985	3.6
Townsend-Greenspan, Inc	November 13, 1984	3.6
	February 8, 1985	4.0
Wharton	November 28, 1984	3.5
	December 28, 1984	3.8
	January 29, 1985	4.0
	February 27, 1985	3.6

EMERGING STRESS IN CAPITAL MARKETS

Growth in Credit Demand

The 13.6 percent rise in domestic nonfinancial debt in 1984 was the largest increase on record. Federal Government debt rose at a 17-percent annual rate in 1984 which was also the largest rise in the postwar period. While this was somewhat slower growth than the 19.4 percent rate and 18.8 percent rate in 1982 and 1983, it is by far the highest rate of Government debt accumulation for the second year of any expansion. Private credit demand was substantial as well. Households took on large amounts of consumer credit and mortgages during 1984. Credit demands of nonfinancial businesses were bolstered both by typical corporate loan demand and by heavy retirement of corporate equities owing to substantial buybacks, mergers and leveraged-buyouts throughout the year.

Effect of Credit Demand on Interest Rates

In late 1983, bank lending accelerated. History suggests that this kind of acceleration in loan growth, if it persists, is joined by a sharp rise in interest rates after about 3 months. This is precisely what happened in mid-1984. Total loan demand rose at a 23-percent annual rate during the first 6 months of 1984 and 90-day CD rates rose almost 2 full percentage points—to over 11 percent. Loan demand slowed only slightly in response to the slowing in the economy and was actually quite strong in November and December 1984. Loan demand has slowed somewhat so far in 1985 as table 7 shows.

Table 7

RECENT TRENDS IN BANK LENDING

[Percent change at seasonally adjusted annual rates]

	1984			January 1985
	July–October	November	December	
Total loans	10.2	15.4	13.5	7.0
C&I	7.3	13.5	1.0	2.1
Real estate	11.4	12.4	12.3	9.0
Individual	14.1	17.6	23.0	19.8
All other	10.4	22.6	35.7	0.5
Nonfinancial commercial paper plus C&I loans	13.4	14.8	[1]1.2	NA

[1] Estimated.
NA Not available.

However, real estate and individual loan growth remain strong. Housing starts bounced back in January, and permit data suggest more strength in starts in coming months. Personal loan growth is now by far the fastest growing component of total bank loans. Consumer installment debt equalled 17.6 percent of disposable personal income in December, still a little below the previous peak of 17.8 percent. It is likely that the ratio will ultimately exceed that peak, probably by a percentage point or so if past history can serve as a guide. With inflation under control, disposable personal income continues to edge up, allowing more room for individual credit to expand.

Strong credit demand may drive interest rates up again this year. Interest rates are already beginning to rise. Treasury bill rates, CD rates as well as long-term bond rates are almost a full percentage point above their January lows.

A few events could accelerate this trend. If real GNP growth comes in above expectations in the first quarter, higher bank lending and all the pressures on interest rates outlined previously will ultimately follow. A second factor is the dollar. Presently, domestic loan demand and the need to finance a large Federal deficit are being satisfied, in part, because lending to foreigners is nonexistent, a product of the strong dollar and relatively weak foreign credit demands. A sharp fall in the dollar, a drop in foreign lending to the United States, and a pickup in foreign credit demands would mean upward, "crowding-out" type pressure on interest rates.

MONETARY POLICY

Over the past year, monetary policy has attempted both to sustain the recent decline in the inflation rate and to stabilize economic growth. The basic money supply (M_1) accelerated toward the end of 1983 and rose at an 11.3-percent annual rate during January 1984. This sharp acceleration in money growth signaled the unexpected acceleration in real GNP growth that occurred in the first quarter of 1984. M_1 grew at a 6.2-percent rate for the quarter and real GNP grew at a 10.1-percent rate, the fastest quarterly growth rate in 11 years.

The acceleration in the economy prompted monetary policy, which had been moving gradually toward less accommodation during 1983, to shift still more rapidly to restricting liquidity in the banking system. However, the rapid increase in short-term credit demand during the same period intensified the effect on interest rates of a relatively moderate Fed move toward greater restraint.

The sharp increase in loan demand particularly at the large banks, at a time when the Continental Illinois crisis limited the attractiveness of the discount window, compelled these banks to borrow aggressively in the Fed funds market. This bid up the Fed funds rate.

Interest rates among all maturities rose sharply throughout the spring of last year. Long-term interest rates, which anticipated the rise in short rates, rose from under 11 percent in January to 13.5 percent in July. Three-month Treasury bills, which began the year under 9 percent, exceeded 10 percent by July and peaked at 10.6 percent in August.

The economy slowed sharply in response to the sharp run-up in interest rates and the fall off in auto production and orders. (Auto production had been quite high in the second quarter in anticipation of a possible strike in the fall.) Total domestic demand (as measured by real GNP plus imports) grew 12.9 percent in the first quarter, 7.9 percent in the second quarter and 5.5 percent in the third quarter. Real GNP growth slowed from an annual rate of 10.1 percent in the first quarter to 7.1 percent in the second quarter to 1.6 percent in the third quarter.

In September, monetary policy turned aggressively stimulative. The Fed increased the liquidity in the banking system and essentially followed a "frictional" borrowing policy through January of this year. Money growth, which had slowed sharply over the year, responded only slowly. M_1 growth declined from 6.5 percent in the second quarter of 1984 to 4.5 percent in the third quarter, and was only 3.4 percent in the fourth quarter. The fourth quarter M_1 growth rate was well below the Fed's target range of 4 to 8 percent for the year and led some to criticize Fed policy as too restrictive.

Since December, however, money growth has accelerated sharply. M_1 grew at better than a 10-percent annual rate through February. M_2, which includes money market mutual funds and deposit accounts and small time deposits, grew at a 15-percent annual rate in January, far above the high end of the Fed's 1985 range. M_3, which includes large time deposits, grew well in excess of the Fed's 1984 range and is continuing to grow rapidly. M_3 grew 13.5 percent during the first 2 months of this year compared to the Fed's target range of 6 to 9.5 percent for the year.

In its annual *Monetary Policy Report to Congress,* the Federal Reserve makes every attempt to indicate its intention to pursue a relatively accommodative monetary policy this year. Indeed, the Fed has actually raised the high end of the target ranges for M_2 and M_3 by one-half of 1 percentage point and indicates that it would tolerate money growth near or above the upper end of all money aggregate targets for some time given the favorable outlook for inflation. In testimony before the House Banking Committee this spring, Chairman Volcker further indicated that the Fed was somewhat inhibited from "tightening" monetary policy as a result of the rise in the value of the dollar.

However, it is unclear how long the Federal Reserve could allow a prolonged period of accommodation to continue in the face of very rapid money growth and inaction on the Federal deficit. As indicated previously, economic growth is showing signs of accelerating. Trends in many of the key economic indicators including the growth in money itself suggest that growth in the first half of the year, possibly in the first quarter, will be well above expectation. Already, the Fed has ended the downward drift of interest rates and the Fed funds rate is trading near 9 percent. Treasury bill rates are one-half to three-quarters of a percentage point higher than they were in January and long-term Treasury bond rates are just under 12 percent. Financial markets could be on the edge of another credit-driven runup in interest rates which even the best intentions of the Fed cannot stem effectively. As discussed later, a drop in the dollar could accelerate this trend.

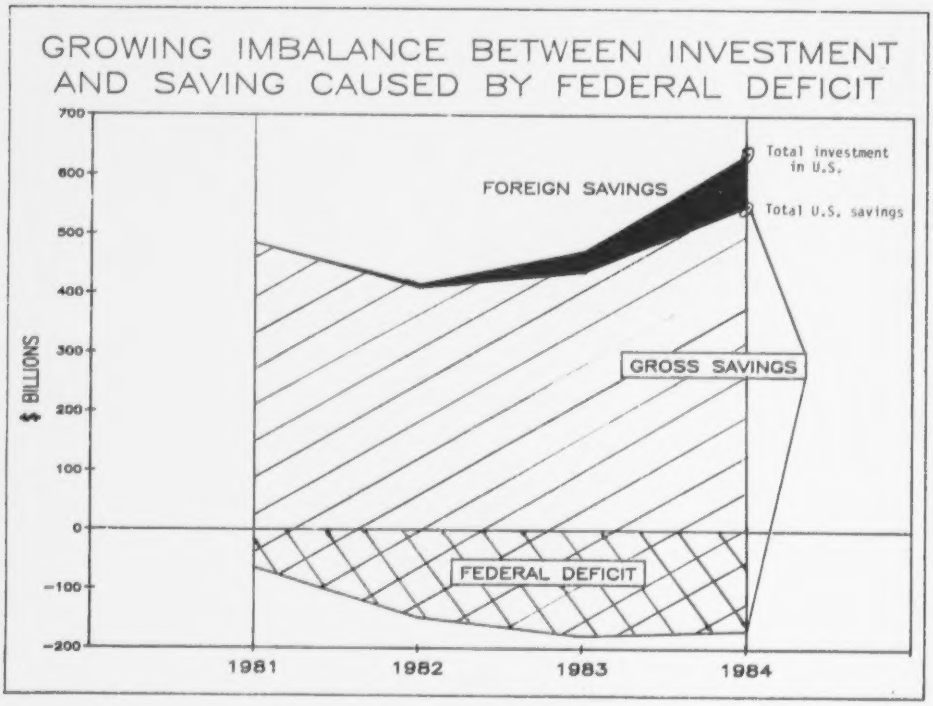
THE UNITED STATES IN A WORLD ECONOMY

The domestic economy is linked to other economies by trade flows and capital flows. The two flows offset one another in the balance of payments. For example, when the United States runs a deficit on its trade or "current" account, it must finance this deficit with a surplus (or net inflow) on its capital account.

In 1983 and 1984, the United States ran record imbalances in the international accounts. The imbalance was reflected in current account deficits of $42 billion and $100 billion, respectively, and in capital inflows of the same magnitude.

The imbalance in the international accounts has a counterpart in the domestic economy in the form of an imbalance between investment and savings. Chart 8 below shows that investment in the United States exceeded U.S. savings by $35 billion in 1983 and $94 billion in 1984. When a country's investment rate exceeds its savings rate, it draws in savings from abroad. In the alternative, if a country's investment rate falls below its savings rate, it must export savings to other countries. Japan is an example of a country in the latter situation.

Chart 8



GROWING IMBALANCE BETWEEN INVESTMENT AND SAVING CAUSED BY FEDERAL DEFICIT

The international imbalance (trade deficit and massive net capital inflow) cannot be resolved without either decreasing the rate of investment in the United States, increasing the level of savings, or reducing the Federal deficit. The first option reduces the long-term growth potential of the economy. The second option, an increase in private savings or in State and local surpluses, implies a reduction in consumption and, in this case, a slowdown in GNP growth.

The third option, a reduction in the Federal deficit, is the healthiest way to resolve the imbalance in the domestic and international sectors of the economy. As long as the Federal deficit persists and the U.S. savings rate stays low, the United States will run a current account deficit and will have to attract foreign capital.

Source of the Capital Inflow

The net capital inflow shown in black in chart 8 is due primarily to a change in the investment pattern of U.S. investors. As table 8 below shows, foreign investment in the United States has been relatively steady over the last 5 years and has actually been declining since 1982. The more dramatic change in the pattern of capital flows is the fall-off in U.S. investment abroad. In particular, net foreign lending by U.S. banks fell from $111.1 billion in 1982 to a rate of only $300 million in 1984. *Contrary to "conventional wisdom," America is not so much importing the savings of other nations as it has stopped exporting its own savings.*

So far, the net capital inflow has been relatively easy to attract. This may be because after-tax corporate profits grew more strongly in the United States than abroad, because real interest rates were higher, or because there was a willingness on the part of U.S. investors to divert their new investment activity to the United States.

Looking forward to 1985 and 1986, however, it is likely to become more and more difficult to retain U.S. capital at home and to draw new capital to the United States. As table 8 shows, U.S. investors have reduced their foreign investment to the point that they made practically no new foreign investments in 1984. This means that if Americans are to continue to finance the trade deficit by restricting their own foreign investment activity they will have to do so by actually liquidating foreign investments, a costly proposition.

Table 8 also shows that foreign investment in the United States slowed in 1983 and 1984 despite high interest rates and a healthy economy. This suggests that the high rate of investment the United States has enjoyed to date will increasingly be held hostage by the Federal deficit. Unless the Federal deficit is reduced, thereby adding directly to domestic savings, interest rates will have to be higher, growth lower or both in order to bring the international accounts into better balance. Higher interest rates and lower economic growth both serve to lower investment, and, therefore, potential long-term growth and productivity.

Table 8

CHANGES IN INVESTMENT LEVELS: 1980–84

[In billions of dollars]

	1980	1981	1982	1983	1984 [1]
U.S. investments abroad	96.3	112.7	118.5	49.4	6.7
By U.S. Government	13.0	8.2	9.8	4.6	8.9
By banks	46.9	89.6	111.1	25.4	0.3
By other private investors	36.4	14.9	−2.4	19.4	−2.5
Foreign investment in United States	84.7	75.7	112.1	92.9	83.0
By foreign governments	16.2	4.4	8.5	4.9	−5.5
Foreign direct investment	28.5	23.2	15.7	11.6	20.7
Other foreign investment	40.0	48.1	87.9	76.4	67.8

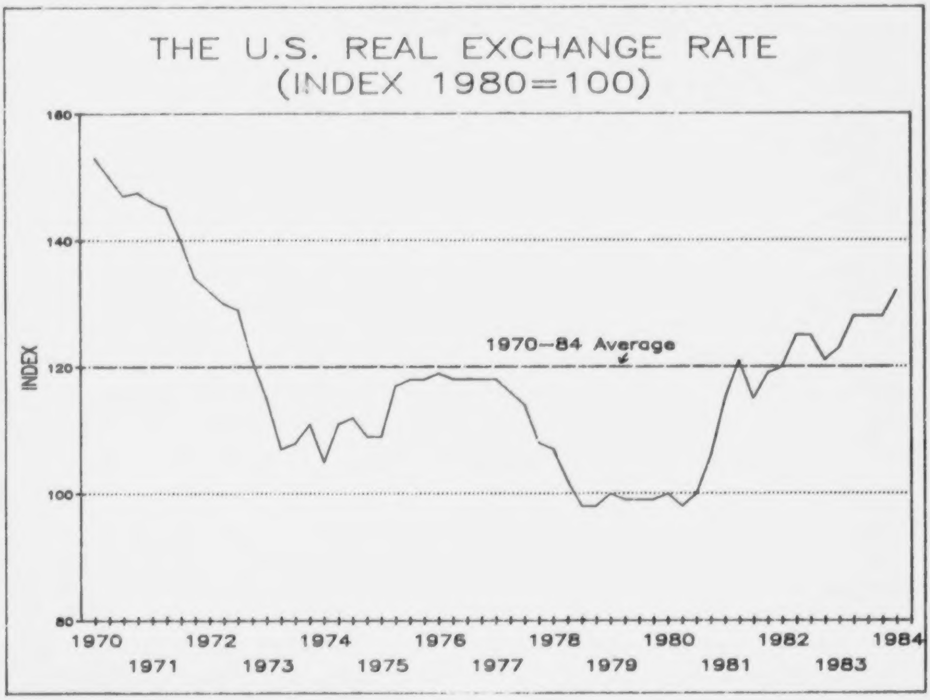
[1] 1984 changes are the annualized rate based on capital flows during the first three quarters of 1984.

The Role of the Dollar

The steady rise of the dollar (see chart 9) since 1980 reflects these imbalances in the economy. A good investment climate, tax cuts and a strong recovery increased U.S. investment activity after the 1981–82 recession. At the same time, the Federal Government deficit reduced the domestic savings pool. Attracted by both safety and higher interest rates, banks diverted their lending activity to the U.S. economy, reducing the supply of dollars available outside the United States. This was accompanied by a tight domestic monetary policy and an increase in the percentage of dollar-denominated international trade. This combination—investment incentives, a large Federal deficit, and growing international confidence in the U.S. dollar—resulted in the dollar rising almost back to the level it was at before the United States left the gold standard.

It should be noted that the index in chart 9 is heavily weighted toward European currencies (13 of the 15 countries in the index are in Europe or North America). This weighting obscures the strength of several Asian currencies that are also relatively strong. For example, although the dollar has appreciated 40 to 50 percent with respect to most European currencies, since January 1983 the dollar is only up 11 percent relative to the yen, 12 percent relative to the Canadian dollar and 8 percent relative to the Singapore dollar.

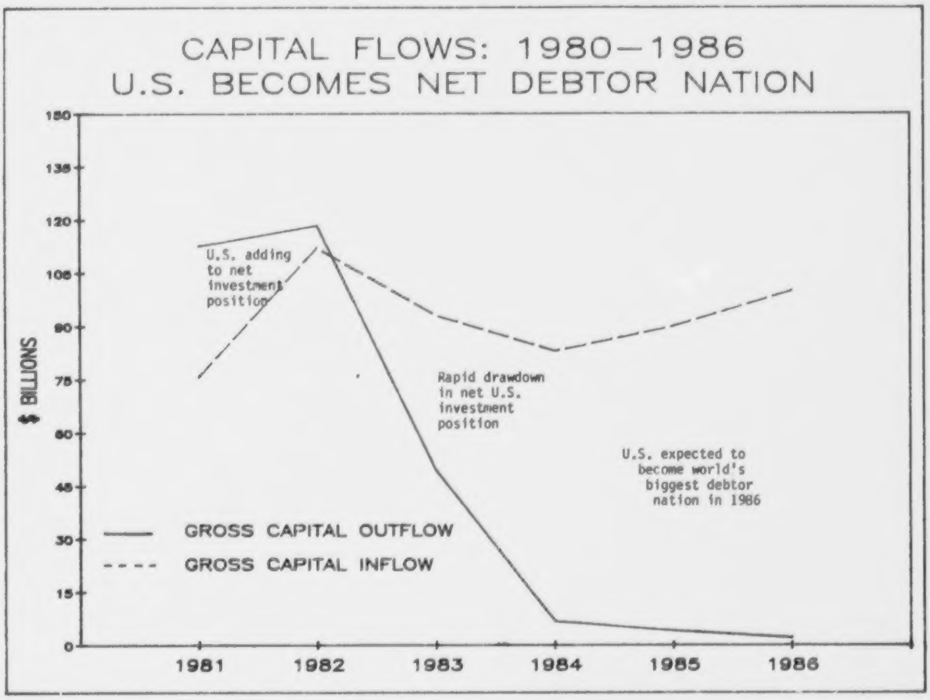
Chart 9



Conclusion

Chart 10 shows the result of inaction on the budget deficit. Over a 40-year period, the United States built up a net investment position that generated profits for the United States and helped foreign economies develop. In only 3 years, that investment was eliminated. By 1986, the United States will rapidly overtake Mexico and then Brazil in the size of its external debt. Without action on the Federal deficit, the two lines in chart 10 will only come together through a reduction in investment activity in the United States, probably caused by higher interest rates.

Chart 10



The recent British experience is a good case in point. The Bank of England had to raise the central bank lending rate from 9.5 percent in December 1984 to 14 percent in January 1985 in an effort to strengthen the pound, even though inflation has been running under 5 percent. Since the increase in interest rates, the pound has hit new lows. If the United States continues running a large Federal deficit and its investment climate deteriorates, interest rates could move up substantially.

In addition to raising the level of risk in the U.S. economy, the imbalance in the capital account hinders economic progress abroad, progress that is needed to improve U.S. exports and to generate interest payments on the external debt of the developing countries. Foreign economies have been hurt by the growing capital needs of the United States and have not benefited from declining commodity prices since, in many cases, their currencies have fallen even more than commodity prices.

A growing imbalance exists in the domestic and international economy. The Federal deficit contributes to that imbalance by reducing the domestic savings pool and by maintaining interest rates above where they would otherwise be. The result is a net capital inflow and a persistent deterioration in the U.S. net investment position. To attract capital, the United States must rely on its favorable investment climate relative to the rest of the world or turn to high interest rates as an inducement.

One of the biggest risks to the world economy is inaction on the Federal budget. If no action is taken to reduce budget deficits and confidence in U.S. economic policymaking is undermined, the dollar could fall sharply, leading to inflation and serious instabilities in international financial markets.

Implications for Policy

Large budget deficits raise the overall level of interest rates above what they would otherwise be. This happens in two ways. First, large budget deficits can add to economic growth in the near term. To the extent that the Fed attempts to control the growth in nominal income, the Fed will offset some of this fiscal stimulus through higher interest rates. Second, private loan demand often grows rapidly when the economy grows rapidly. Rapid growth in private loan demand combines with high Federal borrowing requirements to raise interest rates and slow economic growth. Large budget deficits, which do not decline as the economy improves, strongly suggest higher total borrowing requirements, if not in the near-term, certainly as the expansion matures and the private economy is less liquid. In this environment, the Federal Government is the preferred borrower, and interest rates for all borrowers rise. Higher interest rates often mean thinner markets and more volatility.

The experience during the early stages of the recovery illustrates this point. In late 1982 and early 1983, private borrowing grew slowly at first and then accelerated rapidly through the second quarter of 1984 before declining in the second half of the year. The Federal Government borrowed at a $44.5 billion rate per quarter in FY 1983, a $46 billion rate per quarter throughout FY 1984, and peaked at $60.0 billion in net new funds in the fourth quarter. The Federal Government is scheduled to borrow another $44.2 billion in new funds this quarter. In part, the slowdown in growth in the second half of 1984 was due to this conflict between public and private credit demand and its effect on interest rates. Chart 11 illustrates this point.

Chart 11

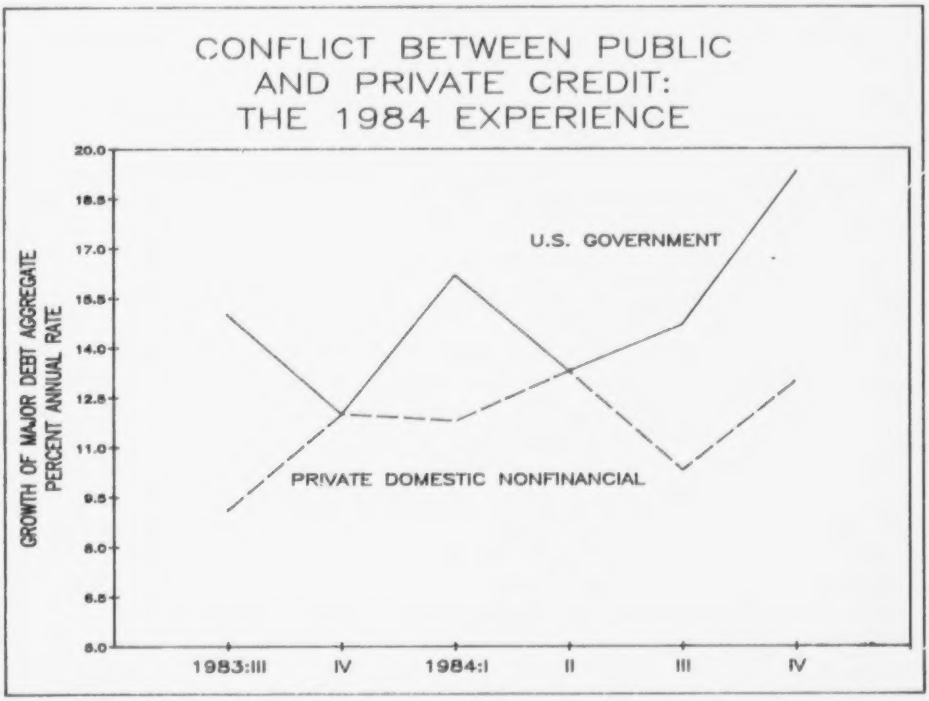
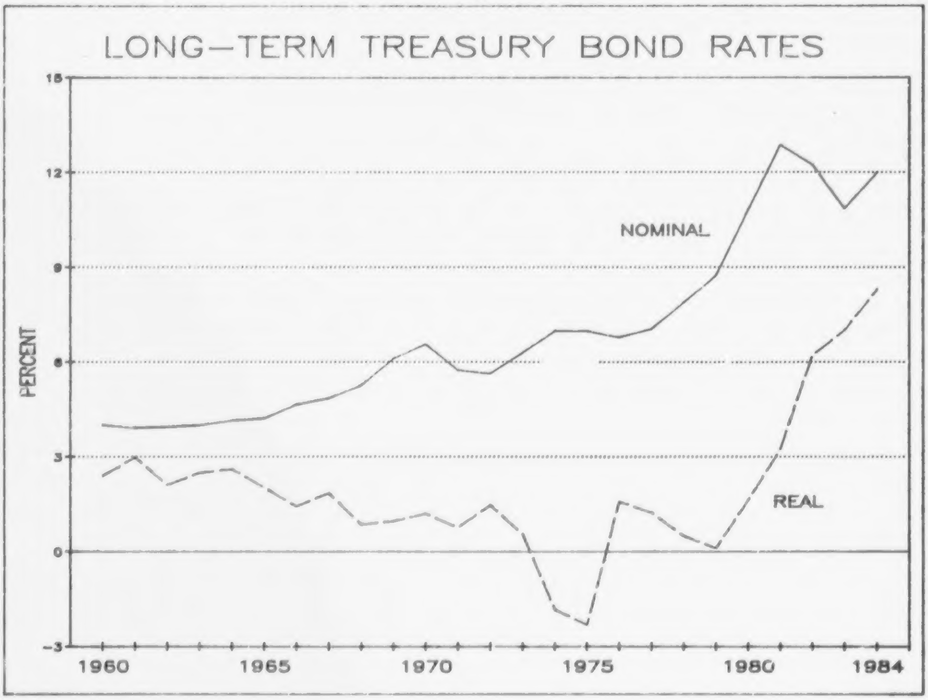


Chart 12 shows real and nominal long-term interest rates over the last 25 years. During the 1960's, real interest rates stayed within a fairly narrow range of 1 to 3 percent, usually holding around 2 percent. In the 1970's, real interest rates fluctuated much more, from a high of about 1.6 percent in 1976 to a low of −2.3 percent at the end of the 1973–75 recession—and averaged about zero over the decade. Real interest rates so far in the 1980's have been much higher than in either the 1960's or 1970's.

There are many explanations as to why real interest rates remain stubbornly high. They include: restrictive monetary policy, unprecedented levels of Government debt, the risks stemming from fluctuations in money growth, interest rates, or changes in tax laws, and last but not least, large and persistent Federal deficits. A simple explanation, related to restrictive monetary policy, involves inflation and inflation expectations. The real rate is the nominal interest rate minus the rate of inflation. During the 1970's, inflation ran higher than nominal interest rates and negative real interest rates resulted. Inflation is now about one-third of the rate during the 1970's, but nominal interest rates are about the same or even a little higher. The current high real interest rates reflect the conflict between the Federal Reserve's active pursuit of noninflationary monetary policy and large budget deficits.

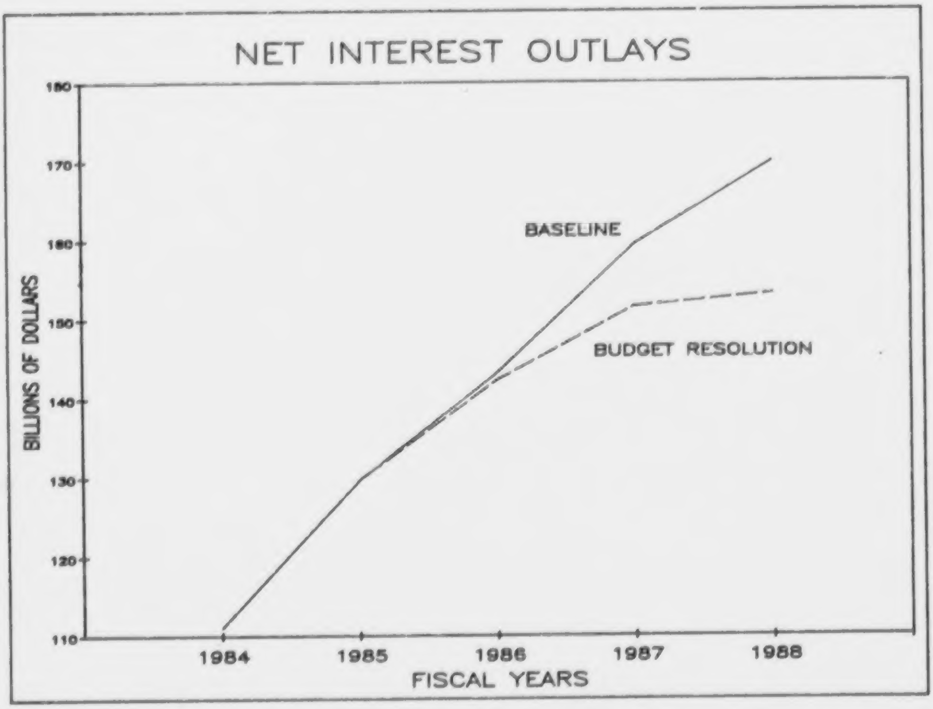
Chart 12



Although interest rates have declined in recent months and the stock market has reacted with a sharp recovery, the decline in interest rates is in large part the result of lower than expected inflation rates. Real interest rates continue to be very high relative to historical experience.

Large Federal budget deficits also increase Federal interest costs and the relative share of interest payments in the Federal budget. Since 1979, net interest payments by the Federal Government have increased from 8.5 percent of the total budget to 13 percent of the budget in FY 1984. This occurred at a time when total spending increased on average by an 11-percent annual rate. This means that interest payments increased an average 21.2 percent in nominal terms between 1979 and 1984. Moreover, despite all of the efforts to curb the growth in debt in recent years, including the Deficit Reduction Act of 1984, net interest payments will increase 17.4 percent this fiscal year. Interest payments were the fastest growing component of the Federal budget during this period, growing nearly twice as fast as defense spending. Growing interest costs redistribute resources within the Government sector from direct programs that achieve Government objectives to interest payments. Chart 13 shows the growth in interest payments implied by current budget policies relative to the Committee's recommendation. As this chart shows this budget resolution proposes to stem the rise in interest costs—actually for the first time in this decade.

Chart 13



Large structural budget deficits also introduce a substantial degree of uncertainty regarding future economic policy. Noninflationary monetary policy is viewed as unsustainable in the face of large and growing budget deficits primarily because of the interest cost consequences. The explosive rise in interest costs cannot be permitted to go on indefinitely. A slowdown in economic growth or a recession can raise deficits for purely cyclical reasons. However, the Government will have to borrow the additional funds at high real interest rates, adding directly to the already large structural deficit. There are some estimates which show that if no action is taken on the budget deficit and the economy does not perform as well as expected, interest costs could double as a share of the total budget—or rise to over one-quarter of total spending—by the turn of the century.

Monetary policy is not likely to retain its current commitment to holding down the inflation rate in the face of such explosive growth in interest costs. The distortions in the Federal sector as well as the burden on financial markets of such a rapidly growing supply of Government debt would eventually cause the Fed to begin to absorb an increasing share of the debt—thereby losing control of monetary policy.

Finally, it should be noted that large budget deficits also have some important effects on the distribution of growth among industrial sectors, especially in the face of such a rapid rise in the value of the dollar and a weakened U.S. trade position. Many trade sensitive industries are restrained by the competitive forces due to the high value of the dollar. Although the dollar helps to hold down the domestic inflation rate and therefore business costs, it also serves to restrain prices and margins. In fact, many export competing industries have actually had to reduce their prices to make up for the dollar's effect on foreign currency denominated prices. Although there are many specific constituencies that may be affected by reductions in Federal spending, it is clear that there are also many groups, both businesses and workers, who currently are paying the price of the present budget and trade imbalances.

Chapter III. REVENUES

SUMMARY

The Committee recommends a revenue level of $793.8 billion for FY 1986. The Committee recommends no changes in tax policy other than those which are the necessary indirect effect of spending policy changes in this resolution. Therefore, the Committee recommendation assumes the baseline level of revenues with an increase of $1.1 billion solely to reflect the revenue effects of spending proposals assumed in the resolution. The Committee further recommends a revenue level of $866.6 billion in FY 1987 and $956.2 billion in FY 1988. These also represent the baseline level of revenues with increases of $2.3 billion and $3.7 billion in FY 1987 and FY 1988, respectively, to reflect the revenue effects of spending policy changes assumed in the resolution.

REVENUE BASELINE

The revenue baseline used by the Committee during its deliberations on the budget resolution was estimated by the Congressional Budget Office using the economic assumptions discussed in chapter II. The baseline is the level of revenues that would occur under existing tax law. All tax provisions scheduled to expire between FY 1985 and FY 1988 are assumed to do so as specified in law, with four exceptions. Taxes for the Hazardous Substance Response (Superfund), Airport and Airway, and Highway Trust Funds are extended at current rates beyond their expiration dates in FY 1985, FY 1987, and FY 1988, respectively. This convention is used to be consistent with the baseline assumptions for spending. The Federal civil service retirement contribution adjustment for new employees is also extended beyond its scheduled expiration date at the end of FY 1985 as explained in the CBO annual report.

COMMITTEE RECOMMENDATION

The Committee recommendation is the baseline level of revenues adjusted for the revenue effects of spending policies assumed in the resolution. The Committee recommends no tax policy change other than those which are required by the spending recommendations in this budget resolution. These policies include changes in the management of collections of income and social insurance taxes and other spending proposals discussed in the function 600 section of chapter IV. Table 1 shows the revenue levels contained in the Committee recommendation, and table 2 shows the distribution of revenues by source.

Table 1

REVENUE PROJECTIONS

[In billions of dollars]

	FY 1985	FY 1986	FY 1987	FY 1988
Baseline	736.2	792.7	864.3	952.5
Revenue effect of spending policies assumed in the resolution		+1.1	+2.3	+3.7
Committee recommendation	736.2	793.8	866.6	956.2

Table 2

REVENUES BY SOURCE

[In billions of dollars]

Source	Actual	Committee recommendation			
	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Individual income taxes	296.2	334.5	364.5	398.3	438.0
Corporation income taxes	56.9	63.8	72.3	89.3	103.2
Social insurance taxes and contributions:					
Social security (OASDI)	168.4	186.2	200.7	216.9	248.3
Medicare (HI)	40.3	44.8	51.0	56.1	61.3
Other	33.0	33.4	33.7	33.1	33.3
Excise taxes	37.4	37.4	34.5	34.9	33.7
Estate and gift taxes	6.0	5.6	5.3	5.0	4.7
Customs duties	11.4	12.5	13.4	14.1	14.8
Miscellaneous receipts	17.0	18.0	18.4	19.1	18.9
Total revenues	666.5	736.2	793.8	866.6	956.2
Nominal growth (percent)	11	10	8	9	10
Real growth (percent)	7	7	3	5	6

Note.—Details may not add to totals due to rounding.

TAX EXPENDITURES

Tax expenditures total $404.2 billion in FY 1986. Table 3 shows the revenue effect of these items for fiscal years 1984 through 1989. It should be noted that, because of interaction among the provisions, the revenue effect of altering more than one of these preference items would not necessarily equal the sum of each individual item.

Table 3

Tax Expenditure Estimates By Budget Function, Fiscal Years 1984–1989 [1]

[Millions of dollars]

Function	Corporations						Individuals					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
National defense:												
Exclusion of benefits and allowances to Armed Forces personnel	....	....	....	....	....	....	1,895	2,030	2,170	2,300	2,430	2,560
Exclusion of military disability pensions	....	....	....	....	....	....	125	125	130	140	145	155
International affairs:												
Exclusion of income earned abroad by United States citizens	....	....	....	....	....	....	1,300	1,405	1,475	1,550	1,625	1,710
Deferral of income of domestic international sales corporation (DISC)	1,390	1,195	920	810	820	895	....	....	....	....	....	....
Deferral of income of controlled foreign corporations	345	375	390	420	455	495	....	....	....	....	....	....
General science, space, and technology:												
Expensing of research and development expenditures	3,000	3,100	3,185	3,265	3,345	3,430	120	125	130	135	135	140
Credit for increasing research activities	1,470	1,740	985	480	260	130	15	20	10	....	....	....
Suspension of regulations relating to allocation under section 861 of research and experimental expenditures	60	(5)	....	....	....	....	(5)	....	....	....	....	....
Energy:												
Expensing of exploration and development costs:												
Oil and gas	755	1,075	1,400	1,640	1,845	2,065	1,055	1,135	1,270	1,415	1,575	1,755
Other fuels	30	35	35	40	40	45	....	....	....	....	....	....

Footnotes at end of table.

Tax Expenditure Estimates By Budget Function, Fiscal Years 1984-1989 [1]—Continued

[Millions of dollars]

Function	Corporations						Individuals					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
Excess of percentage over cost depletion:												
Oil and gas	330	335	320	340	360	380	885	805	820	855	910	960
Other fuels	350	355	380	410	440	470	15	15	15	15	20	20
Capital gains treatment of royalties from coal	35	40	40	45	50	55	125	140	160	175	195	215
Alternative fuel production credit	10	25	25	30	30	35						
Alcohol fuel credit [2]	5	5	5	5	5	(3)						
Exclusion of interest on State and local government industrial development bonds for energy production facilities	100	120	135	155	175	190	50	60	70	80	95	110
Residential energy credits:												
Supply incentives							370	470	555	110		
Conservation incentives							260	305	260			
Alternative, conservation, and new technology energy property credits:												
Supply incentives	200	175	100	35	20	5	10	5				
Conservation incentives	35	15	5	(5)			(5)	(5)				
Energy credit for intercity buses	5	5	(5)									
Natural resources and environment:												
Expensing of exploration and development costs, nonfuel minerals	60	65	75	80	85	90	(5)	(5)	(5)	(5)	(5)	(5)
Excess of percentage over cost depletion, nonfuel minerals	315	365	415	460	515	570	15	15	15	20	20	25
Capital gains treatment of certain timber income	395	490	560	605	650	695	135	175	200	220	235	255

Investment credit and 7-year amortization for reforestation expenditures	(2)	(2)	(2)	(2)	(2)	(2)	10	10	10	10	10	10
Capital gains treatment of iron ore	10	10	10	10	10	10	10	10	10	10	15	15
Exclusion of interest on State and local government bonds for pollution control and sewage and waste disposal facilities	1,175	1,285	1,415	1,560	1,725	1,885	580	635	700	770	860	945
Tax incentives for preservation of historic structures	115	130	150	170	195	225	205	250	290	330	380	435
Agriculture:												
Expensing of certain capital outlays	70	70	75	80	80	85	380	400	425	455	485	515
Capital gains treatment of certain income	35	35	40	40	40	45	610	640	670	705	740	780
Deductibility of patronage dividends and certain other items of cooperatives	980	1,010	1,040	1,075	1,110	1,140	−400	−410	−425	−435	−450	−460
Commerce and housing:												
Dividend exclusion	...	...	...	...	...	...	465	455	460	480	495	505
Reinvestment of dividends in stock of public utilities	...	...	...	...	...	...	415	450	280	...	...	...
Net interest exclusion	...	...	...	...	...	...	...	1,025	2,860	3,100	3,370	3,640
Exclusion of interest on State and local government industrial development bonds	2,735	3,125	3,635	4,075	4,175	4,115	665	740	835	925	955	955
Exemption of credit union income	160	185	200	215	235	255	...	...	...	...	...	...
Exclusion of interest on life insurance savings	...	...	...	...	...	...	4,720	5,180	5,695	6,240	6,840	7,510
Excess bad debt reserves of financial institutions	550	795	875	990	1,020	1,080	...	...	...	...	...	...
Deductibility of nonmortgage interest in excess of investment income	...	...	...	...	...	...	6,570	6,950	7,480	8,130	8,890	9,630
Deductibility of mortgage interest on owner-occupied homes	...	...	...	...	...	...	23,480	25,460	28,610	32,090	35,830	39,810

Footnotes at end of table.

Tax Expenditure Estimates By Budget Function, Fiscal Years 1984–1989 [1]—Continued

[Millions of dollars]

Function	Corporations						Individuals					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
Deductibility of property tax on owner-occupied homes	....	....	....	....	....	....	8,775	9,640	10,770	12,180	13,720	15,375
Exclusion of interest on State and local government housing bonds for owner-occupied housing	1,245	1,260	1,230	1,220	1,220	1,235	540	560	545	535	530	530
Exclusion of interest on State and local government housing bonds for rental housing	735	920	1,130	1,355	1,590	1,835	360	445	555	655	780	900
Deferral of capital gains on home sales	....	....	....	....	....	....	4,895	5,625	6,000	6,480	7,030	7,550
Exclusion of capital gains on home sales for persons age 55 and over	....	....	....	....	....	....	1,630	1,875	2,000	2,160	2,345	2,515
Accelerated depreciation on rental housing	155	165	170	180	185	185	660	710	730	755	790	820
Accelerated depreciation on buildings other than rental housing	195	210	235	255	285	310	145	165	180	200	215	230
Accelerated depreciation on equipment other than leased property	10,165	18,925	17,980	14,985	13,895	14,125	1,080	2,870	2,865	2,290	1,880	1,760
Finance leasing	85	435	995	1,530	1,550	1,280	....	....	....	....	....	....
Amortization of business start-up costs	20	25	30	35	40	50	160	230	275	330	395	475
Capital gains other than agriculture, timber, iron ore and coal	2,285	2,515	2,760	2,985	3,195	3,520	17,475	18,485	20,390	22,150	24,000	25,990
Capital gains at death	....	....	....	....	....	....	3,860	4,355	4,940	5,530	6,125	6,615
Reduced rates on the first $100,000 of corporate income	6,740	7,580	8,660	9,420	9,795	10,150	....	....	....	....	....	....

Investment credit, other than ESOPs, rehabilitation of structures, reforestation, leasing and energy property	24,030	29,355	32,625	34,860	37,815	41,310	4,820	5,445	5,850	6,350	6,940	7,610
Transportation:												
Amortization of motor carrier operating rights	70	50	15	5	(5)		5	5	5	(5)		
Deferral of tax on shipping companies	40	45	70	100	125	140						
Exclusion of interest on State and local government mass transit bonds	75	85	80	75	85	125	35	40	40	35	40	65
Community and regional development:												
Five-year amortization for housing rehabilitation	25	25	25	20	20	15	35	35	35	30	25	20
Investment credit for rehabilitation of structures other than historic structures	200	185	220	265	320	385	165	160	190	230	275	330
Private airport, dock, and convention facility bonds	305	350	405	460	520	565	150	175	200	240	275	315
Education, training, employment, and social services:												
Exclusion of scholarship and fellowship income							565	570	550	550	565	580
Exclusion of interest on State and local government student loan bonds	260	355	470	580	690	790	120	170	230	285	340	390
Exclusion of interest on State and local government bonds for private educational facilities	255	315	380	445	510	580	120	150	180	215	250	280
Parental personal exemption for students age 19 or over							980	1,020	1,100	1,185	1,270	1,345
Exclusion of employee meals and lodging (other than military)							725	795	870	945	1,030	1,120
Exclusion of contributions to prepaid legal services plans							40	15				

Footnotes at end of table.

Tax Expenditure Estimates By Budget Function, Fiscal Years 1984–1989 [1]—Continued

[Millions of dollars]

Function	Corporations						Individuals					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
Exclusion for employer provided child care	....	....	....	....	....	....	40	70	110	135	155	175
Tax credit for ESOPs	1,430	2,295	3,095	3,585	2,270	975	....	....	....	....	....	....
Deductibility for charitable contributions for education	345	360	415	480	525	550	705	810	960	925	905	965
Deductibility for charitable contributions, other than education and health	425	445	515	590	645	680	9,635	11,055	13,100	12,620	12,390	13,195
Credit for child and dependent care expenses	....	....	....	....	....	....	1,695	1,905	2,150	2,410	2,675	2,945
Targeted jobs credit	455	470	380	210	110	50	95	35	(5)	....	....	....
Deduction for two-earner married couples	....	....	....	....	....	....	5,835	6,350	6,935	7,600	8,460	9,420
Deduction for adoption expenses	....	....	....	....	....	....	10	10	10	10	10	10
Cafeteria plans	....	....	....	....	....	....	25	75	240	725	1,650	2,690
Health:												
Exclusion of employer contributions for medical insurance premiums and medical care	....	....	....	....	....	....	17,625	20,165	22,965	26,210	29,910	34,110
Deductibility of medical expenses	....	....	....	....	....	....	3,150	3,410	3,730	4,145	4,600	5,055
Exclusion of interest on State and local government bonds for hospital facilities	825	1,025	1,230	1,440	1,655	1,870	390	490	590	695	800	910
Deductibility of charitable contributions for health	....	....	....	....	....	....	1,410	1,620	1,915	1,845	1,815	1,930
Tax credit for orphan drug research	15	15	15	15	10	....	....	....	....	....	....	....

Income security:												
Exclusion of untaxed social security benefits:												
Disability insurance benefits							1,225	1,105	1,120	1,145	1,165	1,190
OASI benefits for retired workers							13,895	12,975	13,695	14,400	15,025	15,515
Benefits for dependents and survivors							3,755	3,765	3,970	4,195	4,425	4,650
Exclusion of untaxed railroad retirement system benefits							615	450	460	465	475	480
Exclusion of workmen's compensation benefits							2,020	2,215	2,435	2,680	2,950	3,245
Exclusion of special benefits for disabled coal miners							155	155	155	155	155	160
Exclusion of untaxed unemployment insurance benefits							2,305	1,800	1,680	1,575	1,450	1,390
Exclusion of public assistance benefits							495	510	520	535	560	555
Exclusion of disability pay [4]							75					
Net exclusion of pension contributions and earnings:												
Employer plans							47,245	52,670	58,985	66,065	73,995	82,875
Plans for self-employed							1,475	1,530	1,645	1,725	1,770	1,890
Individual retirement plans							9,190	9,840	10,945	11,890	12,705	13,870
Exclusion of other employee benefits:												
Premiums on group term life insurance							2,170	2,380	2,615	2,880	3,165	3,480
Premiums on accident and disability insurance							120	125	130	135	140	150
Additional exemption for the blind							30	30	30	30	30	30
Additional exemption for elderly							2,325	2,450	2,560	2,730	2,870	3,040
Elderly and disabled credit [4]							145	210	200	190	180	170
Deductibility of casualty and theft losses							370	415	515	580	655	735
Earned income credit [6]							315	285	250	170	130	120
Veterans benefits and services:												
Exclusion of veterans disability compensation							1,810	1,855	1,930	2,015	2,100	2,190

Footnotes at end of table.

Tax Expenditure Estimates By Budget Function, Fiscal Years 1984–1989 [1]—Continued

[Millions of dollars]

Function	Corporations						Individuals					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
Exclusion of veterans pensions	....	....	....	....	....	....	335	340	345	350	360	365
Exclusion of GI bill benefits	....	....	....	....	....	....	130	115	100	90	80	70
General government:												
Credits and deductions for political contributions	....	....	....	....	....	....	200	220	220	230	240	250
General purpose fiscal assistance:												
Exclusion of interest on general purpose State and local government debt	7,745	8,740	9,785	10,855	11,950	13,065	3,765	4,255	4,775	5,305	5,850	6,405
Deductibility of nonbusiness State and local government taxes other than on owner-occupied homes	....	....	....	....	....	....	19,840	21,635	25,510	28,690	32,030	35,590
Tax credit for corporations receiving income from doing business in U.S. possessions	1,075	1,135	1,240	1,375	1,525	1,695	....	....	....	....	....	....
Exclusion of possessions source income	1,310	1,440	1,585	1,740	1,915	2,110	....	....	....	....	....	....
Interest:												
Deferral of interest on savings bonds	....	....	....	....	....	....	720	770	825	885	945	1,010

Footnotes to table 1:

[1] All estimates are based on the tax law enacted through December 31, 1983.

[2] In addition, the $0.05/gallon exemption from the excise tax for alcohol fuel results in a reduction in excise tax receipts, net of income tax effect, of approximately $145 million for 1984, $150 million for 1985, $160 million for 1986, $175 million for 1987, $185 million for 1988 and $60 million for 1989.

[3] Less than $1 million.

[4] The disability pay exclusion was replaced with a credit in the 1983 Social Security Act.

[5] Less than $5 million.

[6] The figures in the table indicate the effect of the earned income credit on receipts. The increase in outlays is $1,070 million in 1984, $990 million in 1985, $955 million in 1986, $935 million in 1987, $880 million in 1988, and $755 million in 1989.

Sum of Tax Expenditure Items by Type of Taxpayer, Fiscal Years 1984–89

[In millions of dollars]

Fiscal year	Corporations and individuals	Corporations	Individuals
1984	321,995	75,230	246,765
1985	365,145	94,885	270,260
1986	404,155	102,155	302,000
1987	435,685	106,100	329,585
1988	471,575	110,130	361,445
1989	513,825	115,985	397,840

NOTE.—These totals represent the mathematical sum of the estimated fiscal year effect of each of the tax expenditure items included in Table 1. The limitations on the use of the totals are explained in the text.

Source: Staffs of the Joint Committee on Taxation and the Treasury Department. This table was compiled by the Joint Committee on Taxation in 1984. The Joint Committee on Taxation is presently compiling a similar table for fiscal years 1984–89, to be published later this year.

Chapter IV. SPENDING

INTRODUCTION

This chapter provides details on the Committee's spending recommendations for each of the 21 functional areas of the budget.

Each functional section contains the following material:

—A listing of the major national needs addressed by Federal activities in the function.

—A table showing for fiscal years 1985–88 the baseline used by the Committee in arriving at its spending recommendations and the Committee's spending recommendations.

—A narrative explanation of the Committee's spending recommendations.

—An explanation of the Committee's reconciliation recommendations in the function.

—A table showing historical spending information for the function.

THE BASELINE

The spending baseline as shown in this report has been prepared by the Congressional Budget Office (CBO) using the economic forecast contained in the President's FY 1986 budget and CBO's latest technical estimates.

The baseline for all spending functions except function 050, National Defense, is the level that would occur if existing programs and policies were continued unchanged through the projection period with all programs adjusted for inflation so that existing real levels of activity are maintained.

The baseline for the National Defense function is the level of budget authority and outlays contained in the so-called "Rose Garden" agreement of March 1984, extended through FY 1988.

In all numerical tables and in the text, "President's budget request" refers to the President's budget request as re-estimated by CBO, based on the same principles used to construct the baseline.

The dollar amounts in the baseline, and in the Committee's recommendations, include, where applicable, spending from the so-called "off-budget" programs which were previously excluded from the budget totals.

GENERAL NOTE

In the case of all tables in this chapter, details may not add to totals due to rounding.

Summary Table 1

SUMMARY OF COMMITTEE RECOMMENDATION

[In billions of dollars]

Function		Recommendation			
		FY 1985	FY 1986	FY 1987	FY 1988
050: National Defense	BA	292.6	302.5	323.4	346.8
	O	252.0	273.1	292.1	313.0
150: International Affairs	BA	25.3	21.2	20.1	20.5
	O	18.0	17.6	17.1	16.8
250: General Science, Space, and Technology	BA	9.1	8.8	9.0	9.3
	O	8.7	8.7	8.8	9.0
270: Energy	BA	1.6	5.5	5.5	5.0
	O	6.5	5.4	4.9	4.2
300: Natural Resources and Environment	BA	12.7	12.1	12.5	12.7
	O	13.1	12.4	12.2	12.3
350: Agriculture	BA	24.8	20.4	20.2	19.7
	O	21.0	17.6	19.1	18.9
370: Commerce and Housing Credit	BA	12.6	6.0	4.5	5.0
	O	5.6	2.8	0.6	2.5
400: Transportation	BA	29.6	27.0	28.5	28.2
	O	26.1	26.1	27.7	27.6

Summary Table 1—Continued

[In billions of dollars]

Function		Recommendation			
		FY 1985	FY 1986	FY 1987	FY 1988
450: Community and Regional Development	BA	8.4	5.8	6.2	6.6
	0	8.7	7.7	6.9	6.4
500: Education, Training, Employment, and Social Services	BA	31.5	28.9	29.5	29.7
	0	30.3	29.7	28.9	29.1
550: Health	BA	33.6	34.9	37.4	40.0
	0	33.5	35.0	37.1	39.5
570: Medical Insurance	BA	71.8	82.2	90.8	93.5
	0	65.2	68.7	74.6	82.0
600: Income Security	BA	162.8	155.5	165.4	174.3
	0	128.6	116.9	120.3	125.0
650: Social Security	BA	195.5	211.6	226.0	266.7
	0	189.3	194.9	206.0	220.2
700: Veterans Benefits and Services	BA	27.2	26.8	27.0	27.4
	0	26.3	26.0	26.3	26.8
750: Administration of Justice	BA	6.6	6.8	6.9	7.0
	0	6.4	6.7	6.9	7.0

800: General Government	BA	5.8	5.2	5.3	5.4
	0	5.8	5.2	5.1	5.4
850: General Purpose Fiscal Assistance	BA	6.4	4.2	4.3	2.1
	0	6.4	4.8	4.3	2.6
900: Net Interest	BA	129.7	142.3	151.6	153.2
	0	129.7	142.3	151.6	153.2
920: Allowances	BA	0.3	−2.2	−2.7	−2.0
	0	0.3	−2.2	−2.7	−1.9
950: Undistributed Offsetting Receipts	BA	−32.4	−35.0	−37.8	−41.1
	0	−32.4	−35.0	−37.8	−41.1
Total	BA	1,055.5	1,070.5	1,133.6	1,210.0
	0	949.1	964.4	1,010.0	1,058.5
Revenues		736.2	793.8	866.6	956.2
Deficit		212.9	170.6	143.4	102.3

Summary Table 2

SUMMARY OF BASELINE

[In billions of dollars]

Function		FY 1985	FY 1986	FY 1987	FY 1988
050: National Defense	BA	292.6	333.6	371.9	421.4
	O	252.0	294.6	330.4	368.5
150: International Affairs	BA	24.2	24.3	23.9	24.5
	O	17.8	18.1	18.5	18.7
250: General Science, Space, and Technology	BA	9.1	9.2	9.4	9.6
	O	8.7	9.0	9.2	9.4
270: Energy	BA	1.9	8.1	8.0	7.6
	O	6.9	7.4	7.4	7.0
300: Natural Resources and Environment	BA	12.6	13.4	13.7	14.0
	O	13.0	13.2	13.3	13.6
350: Agriculture	BA	24.8	20.6	21.0	21.1
	O	21.0	17.8	20.0	20.4
370: Commerce and Housing Credit	BA	12.6	9.9	10.6	11.0
	O	5.6	5.3	6.1	8.0
400: Transportation	BA	29.3	30.2	31.1	32.1
	O	26.0	28.2	29.8	30.8

450: Community and Regional Development	BA	8.4	8.0	8.4	9.3
	O	8.7	8.3	8.6	8.8
500: Education, Training, Employment, and Social Services	BA	31.6	32.3	33.5	34.4
	O	30.3	31.3	32.4	33.4
550: Health	BA	33.6	36.3	39.0	41.8
	O	33.5	35.9	38.6	41.3
570: Medical Insurance	BA	71.8	82.3	91.6	95.4
	O	65.2	71.7	79.9	89.9
600: Income Security	BA	163.1	159.4	168.6	177.0
	O	128.8	123.2	129.3	135.4
650: Social Security	BA	195.5	207.2	224.8	264.6
	O	189.3	200.8	214.1	228.4
700: Veterans Benefits and Services	BA	27.2	27.7	28.2	28.7
	O	26.3	27.1	27.8	28.4
750: Administration of Justice	BA	6.5	6.8	7.0	7.1
	O	6.3	6.7	6.9	7.1
800: General Government	BA	5.7	6.0	6.1	6.3
	O	5.8	5.9	5.9	6.2
850: General Purpose Fiscal Assistance	BA	6.4	6.5	6.8	7.1
	O	6.4	6.5	6.7	7.0
900: Net Interest	BA	129.7	143.2	159.4	169.9
	O	129.7	143.2	159.4	169.9
920: Allowances	BA	0.3	1.2	2.8	4.6
	O	0.3	1.2	3.0	4.9

Summary Table 2—Continued

[In billions of dollars]

Function		FY 1985	FY 1986	FY 1987	FY 1988
950: Undistributed Offsetting Receipts	BA	−32.4	−35.5	−38.1	−41.1
	O	−32.4	−35.5	−38.1	−41.1
Total	BA	1,054.6	1,130.8	1,227.5	1,346.6
	O	949.5	1,020.1	1,109.0	1,196.1
Revenues		736.2	792.7	864.3	952.5
Deficit		213.3	227.4	244.7	243.6

Summary Table 3

SUMMARY OF PRESIDENT'S BUDGET REQUEST AS RE-ESTIMATED BY CBO

[In billions of dollars]

Function		FY 1985	FY 1986	FY 1987	FY 1988
050: National Defense	BA	293.0	322.9	363.4	411.7
	O	252.6	284.4	319.2	358.5
150: International Affairs	BA	24.9	21.8	21.4	20.4
	O	18.0	18.3	17.8	17.4
250: General Science, Space, and Technology	BA	9.1	9.5	9.7	10.0
	O	8.7	9.2	9.4	9.8
270: Energy	BA	1.6	5.1	4.5	3.5
	O	6.5	4.9	3.4	2.2
300: Natural Resources and Environment	BA	12.5	11.1	10.5	10.1
	O	13.0	11.6	10.9	11.0
350: Agriculture	BA	24.6	13.9	15.2	11.2
	O	21.0	11.6	11.6	7.9
370: Commerce and Housing Credit	BA	12.6	6.7	3.3	4.2
	O	5.6	2.2	– 0.4	1.2
400: Transportation	BA	29.2	24.3	25.3	24.9
	O	26.1	24.9	26.1	25.5

Summary Table 3—Continued

[In billions of dollars]

Function		FY 1985	FY 1986	FY 1987	FY 1988
450: Community and Regional Development	BA	8.1	5.3	5.3	5.5
	O	8.9	7.5	6.5	5.7
500: Education, Training, Employment, and Social Services	BA	31.1	26.9	27.5	27.3
	O	30.1	28.8	27.3	27.0
550: Health	BA	33.5	34.0	35.5	36.8
	O	33.4	34.2	35.0	36.2
570: Medical Insurance	BA	71.8	81.7	90.6	93.7
	O	65.2	67.9	74.1	81.6
600: Income Security	BA	162.7	145.7	153.5	164.2
	O	127.9	118.0	120.6	125.2
650: Social Security	BA	199.0	207.9	225.2	265.3
	O	189.3	200.7	214.0	228.2
700: Veterans Benefits and Services	BA	27.2	27.3	27.7	28.2
	O	26.3	26.4	26.9	27.6
750: Administration of Justice	BA	6.6	6.6	6.8	6.8
	O	6.4	6.5	6.7	6.8
800: General Government	BA	5.8	5.1	5.1	5.3
	O	5.8	5.1	5.0	5.3

850: General Purpose Fiscal Assistance	BA	6.4	1.6	1.7	1.7
	0	6.4	2.8	1.7	1.7
900: Net Interest	BA	129.7	142.7	154.6	160.0
	0	129.7	142.7	154.6	160.0
920: Allowances	BA	1.8	(*)	0.7	1.7
	0	1.4	0.4	0.8	1.8
950: Undistributed Offsetting Receipts	BA	−32.5	−35.3	−38.4	−41.5
	0	−32.5	−35.3	−38.4	−41.5
Total	BA	1,058.7	1,064.7	1,148.9	1,250.9
	0	950.0	972.7	1,032.8	1,099.2
Revenues		736.5	793.2	863.7	952.5
Deficit		213.5	179.5	169.1	146.7

* Less than $50 million.

Summary Table 4

SUMMARY OF RECONCILIATION SAVINGS BY FUNCTION

[In millions of dollars]

Function	FY 1986		FY 1987		FY 1988	
	BA	0	BA	0	BA	0
050: National Defense						
150: International Affairs	−3,240	−564	−4,039	−1,409	−4,520	−1,713
250: General Science, Space, and Technology						
270: Energy	−2,545	−2,033	−2,462	−2,444	−2,552	−2,743
300: Natural Resources and Environment	−1,010	−587	−948	−852	−1,121	−1,001
350: Agriculture				−727		−1,293
370: Commerce and Housing Credit	−3,998	−2,604	−4,594	−5,442	−5,085	−5,356
400: Transportation	−3,043	−1,930	−2,172	−1,848	−2,895	−2,822
450: Community and Regional Development	−2,170	−634	−1,839	−1,496	−2,246	−2,058
500: Education, Training, Employment, and Social Services	−2,409	−1,185	−2,809	−2,765	−3,336	−3,506
550: Health	−698	−584	−776	−1,079	−879	−1,309
570: Medical Insurance		−3,174		−5,418		−7,989
600: Income Security	−1,942	−3,964	−2,576	−6,115	−2,882	−7,816
650: Social Security		−5,922		−8,153		−8,288
700: Veterans Benefits and Services	−973	−1,059	−1,213	−1,514	−1,312	−1,596
750: Administration of Justice						
800: General Government	−41	−514	−133	−626	−199	−712
850: General Purpose Fiscal Assistance		−1,673		−2,445		−4,385
900: Net Interest						
920: Allowances		−3,476		−5,700		−6,868
950: Undistributed Offsetting Receipts						
Total, reconciliation spending savings	−22,069	−29,903	−23,561	−48,033	−27,027	−59,455
600: Income Security (contributions)		+375		+1,325		+1,370

Summary Table 5

SUMMARY OF RECONCILIATION BY SENATE COMMITTEE

[In millions of dollars]

Senate committee	FY 1986		FY 1987		FY 1988	
	BA	O	BA	O	BA	O
Agriculture, Nutrition, and Forestry	−1,189	−990	−1,764	−2,420	−2,179	−3,390
Armed Services	−531	−639	−745	−1,210	−838	−1,718
Banking, Housing, and Urban Affairs	−8,640	−4,083	−9,387	−6,685	−10,178	−8,287
Commerce, Science and Transportation	−1,998	−1,653	−407	−403	−510	−536
Energy and Natural Resources	−2,962	−2,253	−2,723	−2,569	−2,720	−2,814
Environment and Public Works	−719	−306	−1,208	−1,451	−1,720	−2,112
Finance		−12,054		−17,541		−22,267
Foreign Relations	−447	−357	−1,076	−626	−1,379	−530
Governmental Affairs		−4,276		−8,843		−10,417
Labor and Human Resources	−2,975	−1,168	−3,452	−3,009	−4,078	−3,872
Small Business	−1,443	−978	−1,385	−1,611	−1,900	−1,735
Veterans' Affairs	−973	−1,059	−1,213	−1,514	−1,312	−1,596
Select Indian Affairs	−192	−87	−201	−151	−213	−181
Total reconciliation spending savings	−22,069	−29,903	−23,561	−48,033	−27,027	−59,455
Governmental Affairs (contributions)		+375		+1,325		+1,370

Summary Table 6

HISTORICAL OUTLAYS

[In billions of dollars]

Function	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
050: National Defense	116.3	134.0	157.5	185.3	209.9	227.4
150: International Affairs	7.5	12.7	13.1	12.3	11.8	15.9
250: General Science, Space, and Technology	5.2	5.8	6.5	7.2	7.9	8.3
270: Energy	9.2	10.2	15.2	13.5	9.4	7.1
300: Natural Resources and Environment	12.1	13.9	13.6	13.0	12.7	12.6
350: Agriculture	11.2	8.8	11.3	15.9	22.9	13.6
370: Commerce and Housing Credit	4.7	9.4	8.2	6.3	6.7	6.9
400: Transportation	17.5	21.3	23.4	20.6	21.3	23.7
450: Community and Regional Development	10.5	11.3	10.6	8.3	7.6	7.7
500: Education, Training, Employment, and Social Services	30.2	31.8	33.7	27.0	25.6	27.6
550: Health	20.5	23.2	26.9	27.4	28.6	30.4
570: Medical Insurance	26.5	32.1	39.1	46.6	52.6	57.5
600: Income Security	66.4	86.5	99.7	107.7	122.6	112.7

Summary Table 6—Continued

[In billions of dollars]

Function	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
650: Social Security	104.1	118.6	139.6	156.0	170.7	178.2
700: Veterans Benefits and Services	19.9	21.2	23.0	24.0	24.8	25.6
750: Administration of Justice	4.2	4.6	4.8	4.7	5.1	5.7
800: General Government	3.9	4.4	4.6	4.5	4.8	5.1
850: General Purpose Fiscal Assistance	8.4	8.6	6.9	6.4	6.5	6.8
900: Net Interest	42.6	52.5	68.7	85.0	89.8	111.1
950: Undistributed Offsetting Receipts	−17.5	−19.9	−28.0	−26.1	−34.0	−32.9
Total	503.5	590.9	678.2	745.7	808.3	851.8

Summary Table 7

SUMMARY OF FEDERAL AID TO STATE AND LOCAL GOVERNMENTS IN COMMITTEE RECOMMENDATION

[In billions of dollars]

Function		Recommendation			
		FY 1985	FY 1986	FY 1987	FY 1988
050: National Defense	BA	0.1	0.1	0.1	0.1
	O	0.1	0.2	0.2	0.2
270: Energy	BA	0.3	0.3	0.3	0.3
	O	0.5	0.5	0.5	0.2
300: Natural Resources and Environment	BA	3.6	3.4	3.5	3.6
	O	3.9	3.7	3.4	3.4
350: Agriculture	BA	2.2	1.8	1.7	1.7
	O	2.2	1.8	1.7	1.7
370: Commerce and Housing Credit	BA	(*)	(*)	(*)	(*)
	O	(*)	(*)	(*)	(*)
400: Transportation	BA	20.3	19.8	19.5	19.0
	O	17.6	18.9	19.0	18.7
450: Community and Regional Development	BA	4.5	3.8	4.0	4.3
	O	5.5	5.3	4.9	4.2
500: Education, Training, Employment, and Social Services	BA	18.6	17.0	17.5	18.0
	O	18.4	17.9	17.4	17.7

550: Health	BA	23.7	25.4	27.4	29.6
	O	24.4	25.4	27.4	29.5
600: Income Security	BA	32.7	32.3	33.4	34.6
	O	27.2	26.4	27.4	28.6
700: Veterans Benefits and Services	BA	0.1	0.1	0.1	0.1
	O	0.1	0.1	0.1	0.1
750: Administration of Justice	BA	0.2	0.2	0.2	0.2
	O	0.1	0.2	0.2	0.2
800: General Government	BA	0.2	0.2	0.2	0.2
	O	0.2	0.2	0.2	0.2
850: General Purpose Fiscal Assistance	BA	6.5	4.2	4.3	2.1
	O	6.5	4.8	4.3	2.7
Total	BA	113.0	108.6	112.2	113.7
	O	106.7	105.4	106.7	107.4

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* Less than $50 million.

Function 050: NATIONAL DEFENSE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Protect America's people, its institutions, and its lands from foreign aggression.

—Improve the current overall military balance between the United States and its allies, and the Soviet Union and its allies.

—Deter a nuclear attack on the United States, or its forces, or on other nations whose security is important to us, and assure that should deterrence fail, the United States can respond to the threat at all levels of conflict including inflicting unacceptable damage in retaliation to the aggressor.

—Maintain, with our allies, sufficient military power to counter aggression anywhere in the world.

—Seek equitable and verifiable international agreements to limit and reduce all armaments, to prevent proliferation of nuclear weapons technology, to settle disputes by peaceful means, and to strengthen international stability.

FUNCTION 050 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	292.6	333.6	371.9	421.4
	O	252.0	294.6	330.4	368.5
Committee recommendation	BA	292.6	302.5	323.4	346.8
	O	252.0	273.1	292.1	313.0

COMMITTEE RECOMMENDATION

The Committee recommends $302.5 billion in budget authority and $273.1 billion in outlays for this function in FY 1986.

The Committee has been in the forefront of the effort to bolster defense spending to provide the military strength consistent with our treaty commitments and national security interests. Over the last 4 years, defense appropriations have grown 35 percent in real terms, resulting in a level that is 15 percent higher in real terms than FY 1968, the height of the Vietnam war.

The Committee recommendation allows the defense budget to increase at the rate of inflation for 1 year. The Committee feels that this level is appropriate for two reasons. First, the President's program to revitalize our military strength has been notably successful. His dual objective of enhancing the readiness of our forces and at the same time modernizing their equipment has been difficult and expensive, but is nearing completion.

Second, the need to reduce the Federal deficit is currently the highest priority of the Congress. The Committee is aware that defense spending, as a percentage of total Federal spending is still well below historical levels; however, it is clear that major deficit reduction is impossible if the defense function is allowed to grow as rapidly as the President recommends.

The Committee's objective in setting the defense level at zero real growth in FY 1986 is to maintain the improvements that have been made since FY 1981, and, at the same time, contribute to deficit reduction. After FY 1986, growth in defense appropriations would resume. A 3-percent real growth path is envisioned for the fiscal years beyond FY 1986.

Over the 5-year period FY 1982-86, defense spending, even with zero real growth in FY 1986, would increase an average of 6 percent each year, substantially exceeding the NATO 3 percent commitment.

The Committee assumes identical treatment of military personnel and civilian employees regarding pay raises. Both would be frozen at current levels through FY 1986 and then would receive raises of 3.8 percent in FY 1987 and 4.7 percent in FY 1988, both in January. Changes in military retirement are also assumed. (See function 600 for a discussion of these changes.)

The Committee is sensitive to the fact that we are currently involved in arms negotiations with the Soviets. It is the Committee's view that this defense recommendation would fully support the critical strategic modernization programs and the President's Strategic Defense Initiative, which are necessary to demonstrate our resolve. At the same time, the temporary suspension of real growth in defense funding should also have a beneficial effect on the negotiations. The Committee will carefully monitor the interaction of congressional budget decisions on defense and the arms negotiations, and will react accordingly as the budget process moves forward.

EXPLANATION OF RECONCILIATION DECISIONS

There are no reconciliation instructions in this function.

FUNCTION 050 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Military personnel	37.3	40.9	47.9	55.2	60.9	64.2
Operation and maintenance	36.4	44.8	51.9	59.7	64.9	67.4
Procurement	25.4	29.0	35.2	43.3	53.6	61.9
Research and development	11.2	13.1	15.3	17.7	20.6	23.1
Atomic energy defense activities	2.5	2.9	3.4	4.3	5.2	6.1
All other	3.5	3.3	3.8	5.1	4.7	4.7
Total function	116.3	134.0	157.5	185.3	209.9	227.4
Nominal growth (percent)	11	15	18	18	13	8
Real growth (percent)	4	3	5	8	8	5

Function 150: INTERNATIONAL AFFAIRS

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Support the security and economic and political stability of allies and friendly governments.

—Assist our domestic economy by strengthening international economic institutions and promoting trade.

—Promote a stable international environment that will reduce conflicts, encourage worldwide economic progress, and bring greater respect for human rights.

—Advance American foreign policy through diplomacy and improved communication between the United States and other nations.

—Support the long-term development of poor countries.

FUNCTION 150 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	24.2	24.3	23.9	24.5
	O	17.8	18.1	18.5	18.7
Committee recommendation	BA	25.3	21.2	20.1	20.5
	O	18.0	17.6	17.1	16.8

COMMITTEE RECOMMENDATION

The Committee recommends $21.2 billion in budget authority and $17.6 billion in outlays for this function in FY 1986.

The International Affairs function budget totals reflect the Committee's recognition of the need to cut beyond a freeze in FY 1986 budget authority in order to achieve significant budget deficit reductions. The Committee, therefore, recommends a freeze at the FY 1985 level in most discretionary appropriated accounts for FY 1986, with fiscal years 1987–88 increases to compensate for inflation.

The Committee assumes additional savings beyond a freeze through the reform and consolidation of several programs. These savings would be accomplished through reform of Federal export promotion activities, consolidation of less-effective foreign aid programs, and restraint in foreign exchange and conduct of foreign affairs activities.

The recommendation assumes that $1.25 billion in new budget authority will be available for Export-Import Bank loan activity in each fiscal year 1986–88. Under the reconciliation instructions to the Committee on Banking, Housing, and Urban Affairs, this amount could be used for the existing direct loan program, for an expanded $12 billion guaranteed loan program backed by a new interest-rate subsidy program, or for any combination of export financing mechanisms.

The Committee's funding recommendations for this function do not include any levels of assistance associated with FY 1985 supplementals for Israel and Egypt economic assistance programs. The recommendations contained in this resolution for this function will be adjusted to include those supplementals when Congress has had the opportunity to act upon them.

The comparatively modest savings recommended for this function will not impair the ability of the executive branch to conduct an effective foreign policy if they are prudently allocated.

Explanation of Reconciliation Decisions

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation described above.

The instruction to the Committee on Foreign Relations reflects the fact that the President proposes reductions in a number of international programs below the FY 1985 enacted levels. The Budget Committee assumes that international programs other than military aid to Israel and Egypt will be funded at the freeze level or the request level, whichever is lower.

The instruction does not assume enactment of an Administration proposal to move funding of the foreign military sales guarantee reserve from an annual appropriation to a permanent, indefinite appropriation without dollar limitation. Potential claims on this proposed permanent appropriation could reach multibillion dollar levels without the check of public scrutiny through the annual authorization and appropriation processes.

FUNCTION 150 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Banking, Housing, and Urban Affairs:				
Reduce cost of Export-Import Bank loan program	BA	−2,793	−2,963	−3,141
	O	−207	−783	−1,183
Foreign Relations:				
Consolidate less effective foreign aid	BA	−314	−938	−1,193
	O	−260	−501	−350
Restrain foreign information and exchange activities	BA	−38	−40	−41
	O	−27	−35	−40
Restrain conduct of foreign affairs activities	BA	−95	−98	−145
	O	−70	−90	−140
Total, function 150	BA	−3,240	−4,039	−4,520
	O	−564	−1,409	−1,713

FUNCTION 150 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Foreign economic and financial assistance	2.9	3.6	4.1	3.8	4.0	4.5
International security assistance	3.7	4.8	5.1	5.4	6.6	7.9
Conduct of foreign affairs	1.3	1.4	1.3	1.6	1.8	1.9
Foreign information and exchange activities	0.5	0.5	0.5	0.6	0.6	0.7
Export-Import Bank	0.2	1.8	2.1	1.2	0.6	1.1
Other international financial programs	−0.7	0.6	−0.1	−0.3	−1.7	−0.2
Total function	7.5	12.7	13.1	12.3	11.8	15.9
Nominal growth (percent)	0	70	3	−6	−4	34
Real growth (percent)	−8	57	−6	−12	−7	29

Function 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

Major National Needs Addressed by the Function

—Expand scientific knowledge through support of basic research in all fields of science.

—Explore space to develop a greater understanding of the Earth, solar system, and universe.

—Develop practical, economic, and productive applications of space technology.

FUNCTION 250 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	9.1	9.2	9.4	9.6
	O	8.7	9.0	9.2	9.4
Committee recommendation	BA	9.1	8.8	9.0	9.3
	O	8.7	8.7	8.8	9.0

Committee Recommendation

The Committee recommends $8.8 billion in budget authority and $8.7 billion in outlays for this function in FY 1986.

The Committee generally assumes that the FY 1986 program level for discretionary appropriated accounts in this function will remain at the FY 1985 level and increase at the projected rate of inflation beginning in FY 1987. In this function, this means that the National Science Foundation (NSF) and Department of Energy (DOE) general science programs are frozen at the FY 1985 budget authority level. The Committee assumes that all National Aeronautics and Space Administration (NASA) programs remain at the FY 1985 program level in FY 1986, except for a decrease in the shuttle orbiter account to reflect the fact that funding will decline as production of the fourth orbiter and associated spare parts is completed.

EXPLANATION OF RECONCILIATION DECISIONS

There are no reconciliation instructions in this function.

FUNCTION 250 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Science	1.3	1.4	1.5	1.6	1.6	1.8
Space flight	2.2	2.6	3.1	3.5	4.1	4.0
Other space activities	1.7	1.8	1.9	2.1	2.2	2.5
Total function	5.2	5.8	6.5	7.2	7.9	8.3
Nominal growth (percent)	6	11	11	11	10	5
Real growth (percent)	−2	2	1	4	6	1

Function 270: ENERGY

Major National Needs Addressed by the Function

—Promote energy production and conservation through pricing policies that reflect the real cost of energy.

—Protect the Nation from being harmed by disruptions in energy supplies.

—Through long-term research and development, develop sources of energy to sustain long-term economic growth.

—Insure the safe use of energy.

FUNCTION 270 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	1.9	8.1	8.0	7.6
	O	6.9	7.4	7.4	7.0
Committee recommendation	BA	1.6	5.5	5.5	5.0
	O	6.5	5.4	4.9	4.2

Committee Recommendation

The Committee recommends $5.5 billion in budget authority and $5.4 billion in outlays for this function in FY 1986.

The Committee generally assumes the FY 1986 program level for discretionary appropriated programs in this function will remain at the FY 1985 level and increase at the projected rate of inflation beginning in FY 1987. In this function, this means that in general programs are frozen for 1 year at the FY 1985 level, except for those discussed below.

The Committee recommends a floor of $650 million and a ceiling of $850 million for Rural Electrification Administration (REA) insured electric loans. It recommends a floor of $850 million and a ceiling of $1.9 billion for REA electric loan guarantee commitments. The recommendation also assumes that REA insured loans and REA loan guarantee commitments for telephone cooperatives are frozen at the FY 1985 levels in FY 1986, and increase at the projected rate of inflation beginning in FY 1987. The Committee's recommendation would set the FY 1986 REA administrative budget at the FY 1985 level, retaining the Engineering Standards Division, and would not increase REA interest rates. Over the past 50 years, REA and the Nation's rural cooperatives have increased the percentage of farms with electric service from 12 to 99 percent. Since Congress fixed interest rates on REA direct loans at 5 percent and established the loan guarantee program in 1972, approximately $41 billion in credit subsidies has gone to rural cooperatives. Today, residential customers in the REA service areas enjoy electric rates that are 12 percent lower than non-REA residential rates.

The Committee recommends a 4-percent reduction in energy supply, fossil energy, and energy conservation programs. The Federal Government provided $2.8 billion for these programs in FY 1985, often supporting demonstration projects and technologies ready for private, commercial development.

The Committee recommendation would limit budget authority for the Department of Energy (DOE) uranium enrichment program to anticipated revenues from uranium enrichment sales. This recommendation also would accelerate DOE's estimated $4.6 billion payment to the Department of the Treasury for the Government's prior investment in the uranium enrichment program.

The Committee recommends a moratorium in funding for the continued development and filling of the strategic petroleum reserve. By the close of FY 1985, the reserve will contain 489 million barrels of oil, enough oil to provide the country with over 108 days of supply in the event of a complete cut-off of oil imports.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implemenation of the Committee recommendation, described above.

FUNCTION 270 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Agriculture, Nutrition, and Forestry:				
Reduce rural electric loan levels	BA	−32	−181	−323
	O	−32	−181	−323
Energy and Natural Resources:				
Reduce funding for fossil energy research and development	BA	−38	−39	−39
	O	−12	−31	−39
Reform the uranium enrichment program	BA	−80	−98	−136
	O	−110	−202	−264

FUNCTION 270 RECONCILIATION—Continued

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Impose moratorium on funding for strategic petroleum reserve oil acquisition and related facilities construction.	BA	−1,964	−1,835	−1,710
	O	−1,729	−1,768	1,779
Reduce funding for energy supply research and development.	BA	−126	−130	−136
	O	−64	−112	−133
Reduce funding for energy conservation	BA	−69	−70	−72
	O	−10	−36	−67
Reduce funding for naval petroleum and oil shale activities	BA	−191	−32	−36
	O	−45	−44	−45
Increase Federal Energy Regulatory Commission fees	BA	−14	−28	−31
	O	−14	−28	−31
Environment and Public Works:				
Reduce funding for Nuclear Regulatory Commission programs.	BA	−31	−49	−69
	O	−17	−42	−62
Total, function 270	BA	−2,545	−2,462	−2,552
	O	−2,033	−2,444	−2,743

FUNCTION 270 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Energy supply	3.8	4.7	4.5	3.4	3.4	2.6
TVA	1.8	2.4	2.0	1.6	0.9	0.3
REA	2.3	3.2	4.7	4.5	3.0	2.0
Naval petroleum reserve receipts	−0.7	−1.9	−1.0	−1.3	−1.2	−1.6
Energy conservation	0.3	0.6	0.7	0.5	0.5	0.5
Strategic petroleum reserve	1.0	0.3	3.3	3.9	1.9	2.5
Energy information, policy, and regulation	0.7	0.9	1.0	0.9	0.9	0.8
Total function	9.2	10.2	15.2	13.5	9.4	7.1
Nominal growth (percent)	15	11	49	−11	−31	−24
Real growth (percent)	6	2	36	−17	−33	−27

Function 300: NATURAL RESOURCES AND ENVIRONMENT

Major National Needs Addressed by the Function

—Protect the public health and the environment with special emphasis on abating pollution of the land, air, and water.

—Provide for balanced conservation and development of public land, water, timber, minerals, and other natural resources.

—Preserve natural areas, fish, and wildlife.

—Improve our knowledge and understanding of the Earth's structure, atmosphere, environment, and resources.

FUNCTION 300 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	12.6	13.4	13.7	14.0
	O	13.0	13.2	13.3	13.6
Committee recommendation	BA	12.7	12.1	12.5	12.7
	O	13.1	12.4	12.2	12.3

Committee Recommendation

The Committee recommends $12.1 billion in budget authority and $12.4 billion in outlays for this function in FY 1986.

The recommendation generally assumes the FY 1986 program level for the discretionary appropriated programs in this function will remain at the FY 1985 level and increase at the projected rate of inflation beginning in FY 1987. In this function, this means that in general programs are frozen for 1 year at the FY 1985 level, except for those discussed below.

The Committee's recommendation would reduce budget authority for discretionary public land acquisition by 38 percent in FY 1986. The Federal Government owns over 700 million acres of land, or approximately one-third of the land area of the United States. Although the Department of the Interior has the authority to sell unneeded public lands, it generated less than $10 million from land sales in FY 1984, as compared to almost $300 million it spent to acquire public lands.

The Committee recommends the initiation of recreation user fees to recover 25 percent of the costs associated with managing Federal recreational resources, as compared to existing fees which only recover 7 percent.

The recommendation would reduce budget authority for soil and water conservation programs by 23 percent in FY 1986. Current soil and water financial assistance subsidies to local governments and the private sector represent an inefficient means of obtaining soil and water conservation objectives.

The Committee recommends a 15-percent budget authority reduction for National Park Service operation and construction programs. Congress has provided over $1 billion for a park restoration and improvement program (PRIP) over the past 4 years. This reduction reflects decreased funding requirements for the PRIP program, which is essentially complete.

The Committee understands that the Administration plans to submit a supplemental appropriation request to fund transfer to the private sector of civil land remote sensing satellite operations. This request had not been submitted at the time of markup, and is not included in the Committee's recommendation. This is not intended, however, to discourage the Administration from submitting the supplemental appropriation request. The Committee expects the Administration to submit the request and Congress to deal with it in the normal fashion.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

FUNCTION 300 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Agriculture, Nutrition, and Forestry:				
Reduce funding for soil and water conservation programs	BA	−221	−221	−323
	O	−116	−195	−262
Reduce Forest Service programs	BA	−52	−113	−127
	O	−12	−87	−111
Initiate recreation user fees	BA	−21	−22	−23
	O	−21	−22	−23

FUNCTION 300 RECONCILIATION—Continued

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Commerce, Science, and Transportation:				
Increase National Oceanic and Atmospheric Administration fees.	BA	−14	−19	−23
	O	−14	−19	−23
Energy and Natural Resources:				
Reduce funding for discretionary public land acquisition	BA	−142	−140	−142
	O	−44	−84	−106
Initiate recreation user fees	BA	−40	−42	−45
	O	−40	−42	−45
Reduce funding for Bureau of Reclamation programs	BA	−80	−70	−120
	O	−59	−70	−103
Reduce funding for National Park Service operation and construction.	BA	−115	−129	−135
	O	−31	−73	−100
Reduce funding for Bureau of Land Management programs	BA	−43	−50	−57
	O	−39	−47	−53
Reduce abandoned mine reclamation fund spending	BA	−60	−60	−61
	O	−56	−32	−49
Environment and Public Works:				
Reduce funding for Fish and Wildlife Service programs	BA	−51	−43	−44
	O	−29	−102	−100
Reduce Corps of Engineers programs	BA	−150	−18	....
	O	−105	−58	−5
Initiate recreation user fees	BA	−21	−21	−21
	O	−21	−21	−21
Total, function 300	BA	−1,010	−948	−1,121
	O	−587	−852	−1,001

FUNCTION 300 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Water resources	3.9	4.2	4.1	4.0	3.9	4.1
Public lands management	1.6	1.8	2.1	2.0	2.0	1.9
Land acquisition	0.6	0.6	0.5	0.4	0.4	0.4
Management of recreational and wildlife resources	0.9	1.1	1.1	1.1	1.1	1.2
EPA construction grants	3.8	4.3	3.9	3.8	3.0	2.6

FUNCTION 300 HISTORICAL DATA—Continued

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
EPA research and regulatory programs	0.9	1.2	1.3	1.2	1.1	1.1
Superfund				0.1	0.1	0.3
NOAA	0.7	0.7	0.8	0.8	0.9	1.0
Other programs and receipts	−0.3		−0.2	−0.4	0.2	
Total function	12.1	13.9	13.6	13.0	12.7	12.6
Nominal growth (percent)	10	14	−2	−4	−3	−1
Real growth (percent)	2	5	−11	−11	−6	−4

Function 350: AGRICULTURE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Assure sufficient agricultural production to meet domestic needs and export demands.

—Provide an adequate return to farmers.

—Ensure food price stability.

—Increase farm production and income through the conduct and application of research.

—Improve the efficiency and reliability of domestic and export agricultural marketing systems.

FUNCTION 350 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	24.8	20.6	21.0	21.1
	O	21.0	17.8	20.0	20.4
Committee recommendation	BA	24.8	20.4	20.2	19.7
	O	21.0	17.6	19.1	18.9

COMMITTEE RECOMMENDATION

The Committee recommends $20.4 billion in budget authority and $17.6 billion in outlays for this function in FY 1986.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1985 level in FY 1986. For fiscal years 1987–88 these accounts increase based on projected inflation.

The Committee recommendation assumes enactment of a 1985 farm bill that will reform the farm price support program and result in savings beginning in FY 1987. These savings would occur in the programs administered by the Agricultural Stabilization and Conservation Service of the Department of Agriculture. Outlay savings of $0.7 billion and $1.3 billion are assumed for FY 1987 and FY 1988, respectively.

The Committee recognizes the current financial stress in our agricultural economy. It has, therefore, chosen not to recommend significant commodity price support modifications that would impact on the FY 1986 budget.

The Committee, however, does recognize that the cost of current farm programs has increased significantly and at the same time these programs have not been effective in preventing distress in the farm community. A continuation of past policies, therefore, is not considered appropriate for the future of American agriculture. The Committee assumes legislative changes in the farm price support programs to improve the targeting of income support benefits, increase market prices, and re-establish U.S. domestic agriculture's competitiveness in world markets.

It is not the purpose of this Committee to prejudge the specific outcome of the 1985 farm bill debate. The Committee does, however, wish to indicate its concern over the cost of Federal farm programs and the need to reform those programs with an objective of fiscal constraint.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

FUNCTION 350 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Agriculture, Nutrition, and Forestry:				
Reform Agricultural Stabilization and Conservation Service programs.	BA			
	O		−727	−1,293

FUNCTION 350 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
CCC farm price supports	3.8	2.7	4.0	11.7	18.8	7.4
Other farm income stabilization programs	6.1	4.7	5.8	2.6	2.5	4.5
Agricultural research and services	1.3	1.4	1.5	1.6	1.6	1.7
Total function	11.2	8.8	11.3	15.9	22.9	13.6
Nominal growth (percent)	−1	−21	28	41	44	−41
Real growth (percent)	−9	−28	17	31	38	−43

Function 370: COMMERCE AND HOUSING CREDIT

Major National Needs Addressed by the Function

—Ensure that an adequate supply of mortgage credit is available nationally.

—Enhance the safety and soundness of the Nation's depository institutions.

—Maintain effective mail service at reasonable rates financed by user charges.

—Support an environment for fair and equitable business opportunities.

FUNCTION 370 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	12.6	9.9	10.6	11.0
	O	5.6	5.3	6.1	8.0
Committee recommendation	BA	12.6	6.0	4.5	5.0
	O	5.6	2.8	0.6	2.5

Committee Recommendation

The Committee recommends $6.0 billion in budget authority and $2.8 billion in outlays for this function in FY 1986.

The Committee generally assumes that the FY 1986 program level for discretionary appropriated accounts in this function will remain at the FY 1985 level and increase at the projected rate of inflation beginning in FY 1987. In this function, this means that most programs are frozen for 1 year at the FY 1985 level, except for those discussed below.

The Committee adopted the President's proposal to transfer responsibility for rural housing assistance to the Department of Housing and Urban Development (HUD). It assumes no additional funding for Farmers Home Administration (FmHA) rural housing programs beyond that needed to fulfill past obligations. Because the Committee did not adopt the President's proposal for a 2-year moratorium on subsidized housing, it expects that HUD would take over rural housing assistance immediately in FY 1986.

If enacted, this proposal would consolidate responsibility for housing assistance in one agency and would reduce the inequity between current HUD and FmHA programs. Since FY 1981, FmHA activity has declined by less than 15 percent, compared with a 60-percent reduction in budget authority for HUD subsidized housing over the same period. While FmHA continues to offer heavily subsidized credit programs, this kind of assistance is generally no longer available from HUD.

The Committee recognizes that some rural areas have historically suffered a shortage of credit for housing. But FHA mortgage insurance, VA housing guarantees, State and local mortgage bond programs, and an active secondary market all help increase the availability of financing in these areas.

Although the Committee did not adopt the President's proposal to abolish the Small Business Administration (SBA), it assumed a large reduction in funding. The resolution assumes that funding for SBA programs will be reduced by two-thirds and that outlays will be further reduced through the sale of loan assets.

The Committee does not dispute the importance of small business and it does not question the fact that SBA loans and loan guarantees have helped many small businesses. Rather, the decision to scale back the agency and its programs reflects the view that SBA does not provide an essential service in our economy. The Committee believes that the interests of small business would best be served by reducing the deficit.

The Committee's recommendation for this function would continue postal subsidies for nonprofit and charitable organizations, as well as the blind and the handicapped. It would eliminate reduced rates for commercial, for-profit mailers and national political committees and would accelerate a scheduled rate increase for the remaining subsidized mailers.

The Committee assumes that responsibility for this subsidy would shift from the taxpayers to the Postal Service, which would pay for it out of earnings. Without this change, the Postal Service would request an appropriation of $980 million in FY 1986. The Committee recommendation also assumes phased-in contributions to the civil service retirement fund by the Postal Service.

Other program reductions assumed in this function include the following: elimination of the U.S. Travel and Tourism Administration; the end of trade adjustment assistance to firms by the International Trade Administration; and termination of the National Oceanic and Atmospheric Administration's promotion of fishery products.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconcilation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

FUNCTION 370 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Banking, Housing, and Urban Affairs:				
End Farmers Home Administration rural housing programs	BA	−3,437	−3,699	−4,103
	O	−2,044	−3,105	−3,575
Finance:				
Eliminate trade adjustment assistance to firms	BA			
	O	−20	−28	−33
Governmental Affairs:				
Reform postal subsidies	BA			
	O		−1,359	−747
Small Business:				
Reduce funding for Small Business Administration business assistance	BA	−561	−895	−982
	O	−540	−950	−1,001
Total, function 370	BA	−3,998	−4,594	−5,085
	O	−2,604	−5,442	−5,356

FUNCTION 370 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Rural housing programs	3.1	3.6	3.9	4.0	3.6	3.4
Financial institutions insurance and regulation	−1.7	−0.3	−1.4	−2.1	−1.3	−0.6
Government National Mortgage Association	0.2	1.4	1.1	1.5	0.9	0.6
FHA mortgage insurance	0.2	0.2	0.2	−0.2	−0.2	−0.4
Housing for the elderly and handicapped	0.5	0.8	0.8	0.7	0.8	0.7
Postal Service	0.9	1.2	1.4	0.2	1.1	1.2
Small business assistance	0.7	1.1	0.9	1.1	1.1	0.9
Other advancement of commerce	0.8	1.5	1.2	1.0	0.6	1.0
Total function	4.7	9.4	8.2	6.3	6.7	6.9
Nominal growth (percent)	−25	100	−13	−24	7	4
Real growth (percent)	−31	84	−21	−29	3	0

Function 400: TRANSPORTATION

Major National Needs Addressed by the Function

—Develop and maintain a transportation system that meets the needs of commerce and the public.

—Assist in ensuring that the transportation system operates safely, reliably, and efficiently.

—Ensure that Federal transportation policy and programs are consistent with the Nation's economic, energy, environmental, and social goals.

FUNCTION 400 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	29.3	30.2	31.1	32.1
	O	26.0	28.2	29.8	30.8
Committee recommendation	BA	29.6	27.0	28.5	28.2
	O	26.1	26.1	27.7	27.6

Committee Recommendation

The Committee recommends $27.0 billion in budget authority and $26.1 billion in outlays for this function in FY 1986.

The Committee generally assumes that the FY 1986 program level for discretionary appropriated accounts in this function will remain at the FY 1985 level and increase at the projected rate of inflation beginning in FY 1987. In this function, this means that in general programs are frozen for 1 year at the FY 1985 level, except for those discussed below.

The Committee recommendation assumes that urban mass transit capital and operating assistance programs will be reduced by 25 percent below the FY 1985 budget authority level. Those transit programs financed with general fund revenues, as well as those financed with gasoline tax receipts, are assumed to be equally reduced. From 1970 to 1980, public transit use decreased by 28 percent, while over the same period Federal support grew 2,150 percent. Federal transit subsidies often distort capital investment and operating decisions made at the local level. A reduction in Federal transit assistance should lead to greater operating and management efficiencies and local automony.

Under the Committee's recommendation, subsidies for the National Railroad Passenger Corporation (Amtrak) are reduced by approximately 30 percent in FY 1986, 43 percent in FY 1987, and 54 percent in FY 1988 below the freeze level. Amtrak was originally authorized on a 2-year trial basis as a for-profit corporation. Yet, since 1971, Federal subsidies for rail passenger service have totaled nearly $9 billion. Despite this massive Federal investment, Amtrak only carries 2 percent of intercity passengers using commercial transportation nationwide.

The Committee assumes the sale of Conrail to the private sector as provided by the 1981 Northeast Rail Service Act. Further, the Committee assumption includes the elimination of the local rail service assistance program, the northeast corridor improvement project, and the United States Railway Association.

For the Federal-aid highway program, the Committee assumes enactment of S. 391, the Interstate Highway Funding Act of 1985, passed by the Senate on February 23, 1985. S. 391 lowers the FY 1986 highway obligation ceiling to $12.75 billion, a savings of $1.7 billion in obligations below the baseline. For FY 1987 and FY 1988, the recommendation assumes the FY 1985 highway obligation ceiling of $13.25 billion.

The recommendation would reduce funding for airway research, engineering, and development, and for airway facilities and equipment to the President's requested level for FY 1986. Due to design and procurement slippages, the Federal Aviation Administration has not been able to obligate funds for the planned upgrading of the air traffic control system as rapidly as originally anticipated.

Finally, the Committee recommendation allows repayment to the Federal Government of outstanding principal and interest on ship construction differential subsidy loans in return for the permanent right for certain tanker vessels to engage in domestic trade.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

FUNCTION 400 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Banking, Housing, and Urban Affairs:				
Reduce urban mass transit assistance	BA	–1,059	–1,195	–1,328
	O	–223	–443	–701
Commerce, Science, and Transportation:				
Reduce Amtrak subsidies	BA	–239	–336	–432
	O	–208	–309	–413
Sell Conrail	BA	–1,200		
	O	–1,200		
Reduce funding for airway research, development, facilities, and equipment.	BA	–295		
	O	–24	–58	–67
Eliminate certain railroad programs	BA	–50	–52	–55
	O	–7	–17	–33
Allow construction differential subsidy paybacks	BA	–200		
	O	–200		
Environment and Public Works:				
Reduce Federal-aid highway programs	BA		–589	–1,080
	O	–64	–1,002	–1,571
Governmental Affairs:				
Reduce Washington Metro subsidies	BA			
	O	–4	–19	–37
Total, function 400	BA	–3,043	–2,172	–2,895
	O	–1,930	–1,848	–2,822

FUNCTION 400 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Federal-aid highways	6.9	8.8	8.8	7.8	8.7	10.2
Grants to Amtrak	0.8	0.8	0.9	0.7	0.7	2.0
Financial assistance to Conrail	0.7	0.6	0.2	(*)	....	
Northeast corridor rail project	0.2	0.2	0.2	0.3	0.3	0.2
Urban mass transit programs	2.5	3.2	3.9	3.9	3.8	3.8
FAA operations	2.0	2.2	2.3	2.1	2.5	2.6
Airport/airways (trust fund) programs	0.8	0.9	0.8	0.7	0.8	1.1
NASA aeronautical research programs	0.4	0.5	0.5	0.6	0.6	0.6
Maritime construction and operating subsidies	0.5	0.6	0.5	0.6	0.5	0.4
Coast Guard operations and acquisitions	1.2	1.3	1.5	1.7	2.0	2.1
All other	1.5	2.2	3.8	2.2	1.4	0.7
Total function	17.5	21.3	23.4	20.6	21.3	23.7
Nominal growth (percent)	13	22	10	−12	3	11
Real growth (percent)	4	12	0	−18	0	7

* Less than $50 million.

Function 450: COMMUNITY AND REGIONAL DEVELOPMENT

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Promote the development, maintenance, or redevelopment of economically and socially viable neighborhoods in urban, suburban, and rural areas.

—Develop a partnership among Federal, State, and local governments and the private sector to assist in the stabilization and revitalization of economically depressed or declining areas.

—Provide relief to areas that suffer from natural disasters.

FUNCTION 450 PROJECTIONS

[In billion of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	8.4	8.0	8.4	9.3
	O	8.7	8.3	8.6	8.8
Committee recommendation	BA	8.4	5.8	6.2	6.6
	O	8.7	7.7	6.9	6.4

COMMITTEE RECOMMENDATION

The Committee recommends $5.8 billion in budget authority and $7.7 billion in outlays for this function in FY 1986.

The Committee assumes that a comprehensive freeze will limit the FY 1986 funding level for nondefense discretionary appropriated programs to the FY 1985 level. For fiscal years 1987-88, the Committee assumes that these accounts will increase based on the projected rate of inflation.

The Committee also recommends policy changes and program reforms that will result in savings below the freeze level.

The Committee recommends reducing the community development block grant (CDBG) by 10 percent. The large cities portion of CDBG, which receives 70 percent of the funding, provides aid regardless of need and could easily be more closely targeted to the neediest jurisdictions.

The Committee recommends reducing the urban development action grant program (UDAG) by 20 percent and terminating the CDBG loan guarantee program and section 312 rehabilitation loans. Only 3 percent of the eligible communities used the CDBG loan guarantee program in FY 1984. Eliminating both loan programs would reduce the Federal demand for credit and prevent the Federal Government from crowding out the private sector.

The Committee recommends terminating rental development grants and imposing a 2-year moratorium on rental rehabilitation grants. Rehabilitation of existing housing units is a much more cost-effective approach to housing the poor than building new units. Only $14 million of the rental rehabilitation grants' funding was allocated in the first funding round. Most of the program's appropriation is still available, and would allow the program to withstand a 2-year moratorium.

The Committee recommends terminating the Economic Development Administration (EDA) and the Appalachian Regional Commission (ARC). Appalachian highway programs would continue to be funded out of the highway trust fund. EDA has not been authorized since 1981, and ARC has not been authorized since 1982. These programs provide benefits which are local in nature and should not be the responsibility of the Federal Government.

The Committee recommends reducing those Tennessee Valley Authority development programs that are more appropriately the responsibility of State and local government or the private sector.

The Committee recommends terminating Small Business Administration (SBA) disaster loans and transferring the SBA disaster loan portfolio to the Treasury for liquidation. Private insurance is available in many instances to cover losses from disasters. In the case of nonphysical disaster loans, the Federal Government should not provide assistance for losses resulting from normal business risks.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

FUNCTION 450 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Banking, Housing, and Urban Affairs:				
Reduce urban development action grants and terminate certain loan programs.	BA	−92	−80	−156
	O	−23	−138	−195

FUNCTION 450 RECONCILIATION—Continued

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Terminate rental development grants and impose a 2-year moratorium on rental rehabilitation grants.	BA	−277	−290	−152
	O	−51	−193	−288
Reduce community development block grants	BA	−343	−325	−326
	O	−7	−137	−308
Reform national flood insurance program	BA	−50	−98	−112
	O	−22	−87	−110
Environment and Public Works:				
Terminate Economic Development Administration and Appalachian Regional Commission.	BA	−380	−402	−422
	O	−45	−155	−274
Reduce the funding for Tennessee Valley Authority development programs.	BA	−86	−86	−84
	O	−25	−71	−79
Small Business:				
Terminate Small Business Administration disaster assistance programs.	BA	−882	−490	−918
	O	−438	−661	−734
Indian Affairs:				
Reduce funding for the Bureau of Indian Affairs	BA	−60	−68	−76
	O	−23	−54	−70
Total, function 450	BA	−2,170	−1,839	−2,246
	O	−634	−1,496	−2,058

FUNCTION 450 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Community development block grants	3.2	3.9	4.0	3.8	3.6	3.8
Urban development action grants	0.1	0.2	0.4	0.4	0.5	0.5
Other community development programs	0.8	0.8	0.7	0.4	0.3	0.2
Economic Development Administration	0.3	0.5	0.4	0.3	0.2	0.2
Local public works program	1.8	0.4	0.1	(*)	(*)	(*)
Other area and regional development programs	2.8	3.4	3.3	3.5	2.9	2.8
SBA disaster loans	1.0	0.9	1.1	−0.3	−0.4	−0.4
Other disaster assistance programs	0.7	1.1	0.6	0.2	0.4	0.5
Total function	10.5	11.3	10.6	8.3	7.6	7.7
Nominal growth (percent)	−11	7	−6	−21	−9	1
Real growth (percent)	−19	−1	−15	−26	−13	−2

*Less than $50 million.

Function 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Improve educational opportunities for disadvantaged and handicapped children.

—Provide financial assistance for postsecondary students.

—Support educational and cultural institutions and activities.

—Enhance training and employment opportunities for youth and adults.

—Support institutions and agencies regulating management-labor relationships and the gathering of labor statistics.

—Provide supportive services for groups such as the poor, the aged, and the handicapped to assist them in becoming self-sufficient.

FUNCTION 500 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	31.6	32.3	33.5	34.4
	O	30.3	31.3	32.4	33.4
Committee recommendation	BA	31.5	28.9	29.5	29.7
	O	30.3	29.7	28.9	29.1

COMMITTEE RECOMMENDATION

The Committee recommends $28.9 billion in budget authority and $29.7 billion in outlays for this function in FY 1986.

The Committee assumes that a comprehensive freeze will limit the FY 1986 funding level for nondefense discretionary appropriated programs to the FY 1985 level. For fiscal years 1987–88, the Committee assumes that these accounts will increase based on the projected rate of inflation.

The Committee also recommends policy changes and program reforms that will result in savings below the freeze level.

As in the past, the Committee recommends the termination of the impact aid, part "b" program. This portion of the impact aid program directs money to school districts for children whose parents either live or work on Federal land. Every President since President Eisenhower has proposed ending these payments, since the presence of these children does not impose a significant burden on school districts.

The Committee also recommends reducing and terminating several other elementary and secondary education programs, as proposed by the President in his FY 1986 budget. Several of these smaller programs were authorized and funded last year for the first time, so their elimination would not disrupt on-going activities in the Nation's schools.

The Committee proposes that the Congress undertake reform of the guaranteed student loan (GSL) program this year. This program has experienced substantial growth. By the end of FY 1984, the GSL program had supported over $50 billion in loans to students and parents. In 1978 slightly less than 1.1 million students borrowed under the GSL program. By 1984 participation had grown to 3.4 million students. The Committee recognizes that the great success of the guaranteed student loan program is due in large part to the very generous Federal subsidies provided to students, private lenders, State agencies and the Student Loan Marketing Association. However, in a time of fiscal stringency it is necessary to operate this program in a more business-like and economical manner.

The Committee recommends reform of the Job Corps, the employment service, and other job training programs. Several of the Job Corps centers are in such physical decay that they would require a substantial capital investment in order to continue operation. Certain States are not spending money for the dislocated worker program, partially because economic growth has eliminated the need for this program. Federal support of the employment service should be limited to States with high unemployment levels.

The Committee recommends reduced support for cultural activities, such as the National Endowments for the Arts and Humanities and the libraries programs. While these activities may have made contributions to the Nation's cultural life, the current budget crisis demands parity in the budgetary treatment of progams that do not have an immediate impact on the health and welfare of individuals and programs that do.

The Committee also recommends the elimination of the work incentive (WIN) program and the community services block grant. Activities funded by these programs could receive funding instead from the Job Training Partnership Act or the social services block grant. Since the community services block grant provides only 12 percent of the funding for community action agencies, it is not necessary for their continued operation.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

FUNCTION 500 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Finance:				
Eliminate the work incentive program	BA			
	O	−217	−288	−302
Labor and Human Resources:				
Terminate impact aid, part B	BA	−187	−188	−209
	O	−148	−174	−205
Reduce elementary and secondary education programs	BA	−499	−690	−899
	O	−31	−410	−668
Reform guaranteed student loans	BA	−200	−300	−400
	O	−200	−300	−400
Reform the Job Corps, decrease job training and reform the employment service.	BA	−937	−1,002	−1,161
	O	−253	−1,059	−1,310
Reduce support for cultural activities	BA	−200	−220	−240
	O	−62	−132	−199
Eliminate the community services block grant	BA	−386	−409	−427
	O	−274	−402	−422
Total, function 500	BA	−2,409	−2,809	−3,336
	O	−1,185	−2,765	−3,506

FUNCTION 500 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Compensatory education (includes chapter I of ECIA)	3.0	3.4	3.4	3.0	2.6	3.1
Education for the handicapped	0.6	0.8	1.0	1.1	1.3	1.0
Vocational education	0.8	0.9	0.7	0.8	0.7	0.7
Education impact aid	0.9	0.7	0.8	0.5	0.5	0.6
Other elementary, secondary education (includes chapter II of ECIA)	0.8	1.1	1.3	1.4	1.2	1.2

FUNCTION 500 HISTORICAL DATA—Continued

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Guaranteed student loans	0.9	1.4	2.3	3.0	2.6	3.2
Other student assistance	2.9	3.7	3.9	2.7	4.0	3.7
CETA title VI and II–D, public service employment [1]	5.0	3.7	0.9			
Other CETA [1]	4.5	5.2	6.8	4.1		
Job Training Partnership Act					3.9	3.2
The employment service	0.6	0.7	0.8	0.7	0.7	0.8
WIN	0.4	0.4	0.4	0.2	0.3	0.3
Social services block grant (title XX)	3.1	2.8	2.6	2.6	2.5	2.8
Community services program	0.6	0.6	0.6	0.3	0.3	0.3
Other social services (includes vocational rehabilitation and head-start)	2.9	2.7	3.7	3.0	3.3	4.1
All other	3.2	3.7	4.5	3.6	2.7	2.6
Total function	30.2	31.8	33.7	27.0	26.6	27.6
Nominal growth (percent)	13	5	6	−20	−2	4
Real growth (percent)	4	−3	−4	−25	−5	0

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[1] Replaced by Job Training Partnership Act beginning in FY 1983.

Function 550: HEALTH

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Provide health care and preventive health services to the elderly, poor, and disabled.

—Restrain inflation in Federal health care costs.

—Acquire knowledge regarding the causes, prevention, and treatment of diseases, and promote preventive measures by which good health can be maintained.

—Support the education of students in the health professions, especially in primary care fields.

—Promote consumer and occupational health.

FUNCTION 550 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	33.6	36.3	39.0	41.8
	0	33.5	35.9	38.6	41.3
Committee recommendation	BA	33.6	34.9	37.4	40.0
	0	33.5	35.0	37.1	39.5

COMMITTEE RECOMMENDATION

The Committee recommends $34.9 billion in budget authority and $35.0 billion in outlays for this function in FY 1986.

For most discretionary health programs, the Committee generally assumes the funding level recommended by the President. Programs such as the health block grants and other health service programs would be funded at the FY 1985 level.

In light of the projected surplus of physicians, the Committee also assumes a substantial reform of the health professions education program. In each occupation the number of active personnel relative to the population is at its highest point in history.

The Committee also assumes an NIH funding level sufficient to fund 5,500 new and competing research grants. This level is above the historical level of 5,000 grants and is the same level as that funded in FY 1984.

Indian health service funding would be reduced by $132 million in budget authority in FY 1986. This level of funding will maintain outlays for Indian health services at the FY 1985 level in FY 1986, thereby resulting in only minimal changes in services. Outlays will grow in FY 1987 and beyond.

In medicaid, the Committee assumes a reduction of $0.3 billion in outlays. This level of savings can be achieved by eliminating the dual State subsidy for beneficiaries eligible for both medicare and medicaid. This reform will not increase beneficiary costs or reduce services.

Finally, the Committee assumes a reform in the Federal employees' health benefits program by giving incentives to insurance carriers to be more prudent purchasers of health services.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

FUNCTION 550 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Finance:				
Reduce medicaid outlays	BA			
	O	−260	−320	−320
Governmental Affairs:				
Reform the Federal employees' health benefits program	BA			
	O	−60	−130	−210
Labor and Human Resources:				
Reform health professions education funding	BA	−243	−255	−269
	O	−64	−191	−246
Set the number of new and competing National Institutes of Health awards at 5,500.	BA	−323	−388	−473
	O	−136	−341	−422
Indian Affairs:				
Reduce funding for the Indian Health Service	BA	−132	−133	−137
	O	−64	−97	−111
Total, function 550	BA	−698	−776	−879
	O	−584	−1,079	−1,309

FUNCTION 550 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Medicaid	12.4	14.0	16.8	17.4	19.0	20.1
Other health care services	3.6	4.1	4.4	4.4	4.0	4.4
Health research	3.0	3.4	3.8	3.9	4.0	4.4
Education and training of health care work force	0.6	0.7	0.8	0.7	0.6	0.4
Consumer and occupational health	0.9	1.0	1.0	1.0	1.1	1.1
Total function	20.5	23.2	26.9	27.4	28.6	30.4
Nominal growth (percent)	11	13	16	2	4	6
Real growth (percent)	0	0	4	−5	1	2

Function 570: MEDICAL INSURANCE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Provide hospital and medical insurance benefits to the elderly and disabled through the medicare program.

FUNCTION 570 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	71.8	82.3	91.6	95.4
	O	65.2	71.7	79.9	89.9
Committee recommendation	BA	71.8	82.2	90.8	93.5
	O	65.2	68.7	74.6	82.0

COMMITTEE RECOMMENDATION

The Committee recommends $82.2 billion in budget authority and $68.7 billion in outlays for this function in FY 1986.

Consistent with the overall freeze approach, the Committee assumes a freeze on most provider payments in medicare. Reimbursement under medicare's prospective payment system (PPS), payments to hospitals exempted from PPS and payments for the direct cost of medical education are all frozen. Growth in hospital payments in 1987 and beyond would also be restrained. Payments for the indirect cost of medical education and those to nursing homes and home health agencies would be modified.

The Committee also assumes that payments to physicians who have not agreed to become medicare participating physicians would be frozen, as would most payments to other health care providers.

The Committee assumes that the premium for medicare's supplementary medical insurance program would increase gradually to cover 35 percent of program costs. By 1988 the premium would be $5.60 per month higher than under current law. However, current law provisions that prevent any beneficiary checks from declining would be continued.

The Committee assumes the imposition of a copayment on home health services after the 20th visit. In 1986, this copayment would be only $4.80. Home health is the only medicare service with no beneficiary cost sharing, and between 1981 and 1984, medicare payments for home health grew by 175 percent.

The Committee also assumes an extension of the "working elderly" provision. Under current law, workers age 65–69 can choose to have their employer's health insurance as their primary coverage, with medicare secondary. This proposal would extend this option to all older workers.

All savings from the freeze on the social security cost of living increase would be used to shore up the ailing hospital insurance trust fund. Adoption of this provision along with the savings assumed by the Committee will maintain the solvency of the hospital insurance trust fund until late in the next decade.

The Committee is concerned that the freeze in hospital payments will have a particularly harsh impact on institutions which serve a disproportionate share of low-income medicare beneficiaries. Recent studies and reports by the Prospective Payment Assessment Commission, the Congressional Budget Office and others suggest that these hospitals experience higher medicare costs which may be due to the fact that low-income patients require more resources, have greater potential for complications, are likely to suffer from multiple medical problems, or require multiple procedures, and often have a greater need for social and support services. The Tax Equity and Fiscal Responsibility Act of 1982 and the Social Security Amendments of 1983 gave the Secretary of Health and Human Services the authority to provide adjustments for hospitals that serve a significantly disproportionate share of low-income medicare beneficiaries. The Committee is concerned that the Secretary has failed to implement this provision.

In light of the policies adopted in the accompanying resolution, the Committee believes that such an adjustment may be necessary and should be accomplished by administrative or legislative action.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

The Committee included all of its assumed medicare reforms, as discussed above, in its reconciliation instructions.

FUNCTION 570 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Finance:				
Reduce medicare outlays	BA			
	O	−3,174	−5,418	−7,989

FUNCTION 570 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Hospital insurance	20.3	24.3	29.2	34.9	38.6	42.1
Supplementary medical insurance	8.8	10.7	13.2	15.6	18.3	20.4
Payments to HI, SMI (non-add) [1]	(7.7)	(7.8)	(9.6)	(14.3)	(18.8)	(17.9)
Medicare premiums	−2.7	−2.9	−3.3	−3.9	−4.3	−4.9
Total function	26.5	32.1	39.1	46.6	52.6	57.5
Nominal growth (percent)	16	21	22	19	13	6
Real growth (percent)	5	7	10	11	9	1

[1] Virtually all of this amount must be appropriated each year from general funds to make up the difference between premiums paid by beneficiaries and the total cost of the supplementary medical insurance portion of medicare.

Function 600: INCOME SECURITY

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Mitigate the loss of income people experience as a result of unemployment, retirement, disability, or death.

—Provide income support and help ensure an adequate diet for poor Americans, especially families with children, the elderly, and the disabled who cannot provide sufficiently for themselves.

—Help the poor meet problems arising from increasing energy costs.

—Promote decent and affordable housing for low-income individuals and families.

FUNCTION 600 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	163.1	159.4	168.6	177.0
	O	128.8	123.2	129.3	135.4
Committee recommendation	BA	162.8	155.5	165.4	174.3
	O	128.6	116.9	120.3	125.0

COMMITTEE RECOMMENDATION

The Committee recommends $155.5 billion in budget authority and $116.9 billion in outlays for this function in FY 1986.

The Committee recommendation assumes a 1-year freeze in FY 1986 on cost-of-living adjustments (COLAs) in the Federal civilian and military retirement programs, railroad retirement, black lung, and Federal workers compensation. No recipient benefit check would be reduced as a result of this assumption. To protect the low-income elderly and disabled, the Committee recommendation assumes a full COLA for supplemental security income recipients *and* a permanent $10 per month benefit increase for individuals, $15 per month for couples.

In a recent report to the Committee, the Congressional Research Service concluded that Federal civilian and military retirement programs are more costly than their private sector counterparts, primarily due to full indexing and liberal early retirement practices. The Committee recommendation assumes savings in Federal civilian retirement by limiting post-1986 COLA increases to CPI minus 2 percentage points; increasing employee contributions from 7 percent to 9 percent in 1987; and requiring the Postal Service and District of Columbia to pay their full share of retirement costs. In addition to the COLA freeze and the CPI minus 2 percentage points change, the Committee assumes savings in military retirement through reforms that would encourage and allow some members of the armed forces to stay in the service longer. Because many military personnel are engaged in key management, procurement, engineering, and technical functions, it would enhance the Nation's military strength to retain them for longer careers.

The Committee recommendation assumes reforms to reduce the combined $1.6 billion deficit in the Pension Benefit Guarantee Corporation and railroad unemployment fund. It assumes an increase in private pension insurance premiums and reforms in railroad retirement and unemployment to apply the rules for taxing and increasing social security benefits only to railroad retirement benefits that are equivalent to social security and to extend the regular State-Federal unemployment system to rail workers.

The Committee recommendation assumes reforms in nutrition programs to target benefits to the needy, improve program administration, and strengthen work requirements. It assumes savings in the food stamp program by encouraging recipients to work in the private sector or provide useful public services and by providing a block grant at the FY 1985 level of funding for food stamp State administrative expenses. In the child nutrition program the recommendation assumes elimination of the upper income subsidy paid to schools and institutions for meals served to children from families with incomes above 185 percent of the poverty level (currently about $19,600 per year for a family of four) and freeze the COLA for 1 year. This represents a loss of only $43 per year for a family of four with $19,600 in annual income. Needy children would continue to be guaranteed free meals.

The Committee did not accept the President's recommendation for a 2-year moratorium on commitments for subsidized housing. Instead, it assumed a freeze in budget authority for this program in FY 1986, with increases for inflation in the following 2 years.

The resolution also addresses the problem of financing public housing capital costs caused by the 1984 Tax Act. It accepts the President's recommendation to forgive about $14 billion in debt on existing public housing projects. This would reduce outlays from HUD's subsidized housing program because annual debt service payments would no longer be needed for these projects.

The Committee also accepted the President's recommendation for a reduction in public housing operating subsidies. The amounts assumed in the resolution reflect lower operating subsidy requirements due to recent legislation, reduced energy consumption, and regulatory changes.

The Committee generally assumes that the FY 1986 program level for discretionary appropriated accounts in this function will remain at the FY 1985 level and increase at the CBO projected rate of inflation beginning in FY 1987. In this function, this means that, in general, discretionary programs are frozen for 1 year at the FY 1985 level, except for those discussed above.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

FUNCTION 600 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Agriculture, Nutrition, and Forestry:				
Reform Food and Nutrition Service programs	BA	−854	−1,197	−1,343
	O	−800	−1,178	−1,338
Armed Services:				
Forgo the cost-of-living increase for military retirement in FY 1986 and further reform the system.	BA	−531	−745	−838
	O	−639	−1,210	−1,718
Banking, Housing, and Urban Affairs:				
Reform financing of public housing capital costs	BA			
	O	−1,070	−1,100	−1,104
Reduce funding to operate existing public housing projects	BA	−557	−634	−701
	O	−404	−596	−664
Finance:				
Increase Pension Benefit Guarantee Corporation insurance premiums.	BA			
	O	−184	−206	−231
Reform railroad retirement and unemployment programs	BA			
	O		−10	−20
Forgo cost-of-living increases for social-security-related non-means-tested programs in FY 1986.	BA			
	O	−131	−180	−186
Governmental Affairs:				
Reform the Federal civilian retirement system (spending)	BA			
	O	−11	−396	−918
Forgo cost-of-living increases for civil service retirement and related programs in FY 1986	BA			
	O	−725	−971	−992
Reduce other programs	BA			
	O		−265	−645
Total, function 600 (spending)	BA	−1,942	−2,576	−2,882
	O	−3,964	−6,115	−7,816

FUNCTION 600 RECONCILIATION—Continued

[In millions of dollars]

Committee/program	FY 1986	FY 1987	FY 1988
Governmental Affairs:			
Reform the Federal civilian retirement system (contributions).	+375	+1,325	+1,370

FUNCTION 600 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Railroad retirement	4.3	4.7	5.6	5.7	6.1	6.1
Black lung	1.6	1.8	1.8	2.0	1.9	1.9
Military retirement	10.3	11.9	13.7	15.0	15.9	16.5
Federal civilian retirement	12.4	14.7	17.7	19.5	20.8	21.8
Unemployment compensation	10.7	18.0	19.7	23.7	31.5	18.4
Subsidized housing	3.6	4.5	5.7	6.9	7.8	8.8
Public housing loans	0.7	0.9	1.4	1.7	1.9	1.2
Food stamps	6.8	9.1	11.3	11.0	12.7	12.4
Child nutrition	2.9	3.4	3.4	3.0	3.3	3.5
Supplemental food (WIC)	0.5	0.7	0.9	0.9	1.2	1.4
Supplemental security income (SSI)	5.5	6.4	7.2	7.7	8.7	7.6
Aid to families with dependent children (AFDC)	6.6	7.3	8.5	8.0	7.9	8.3
Low income energy assistance	0.2	1.6	1.8	1.7	2.0	2.0
Earned income tax credit	0.8	1.3	1.3	1.2	1.2	1.2
Refugee assistance	0.1	0.4	0.7	1.0	0.5	0.6
All other		0.5	−1.2	−0.3	0.7	1.9
Total function	66.4	86.5	99.7	107.7	122.6	112.7
Nominal growth (percent)	8	30	15	8	14	−8
Real growth (percent)	−2	15	4	1	10	−12

Function 650: SOCIAL SECURITY

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Provide social security benefits so as to mitigate the loss of income people experience as a result of retirement, disability, or death of a wage earner insured by the social security retirement, disability, and survivors insurance program.

FUNCTION 650 PROJECTIONS

[In billions dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	195.5	207.2	224.8	264.6
	O	189.3	200.8	214.1	228.4
Committee recommendation	BA	195.5	211.6	226.0	266.7
	O	189.3	194.9	206.0	220.2

COMMITTEE RECOMMENDATION

The Committee recommends $211.6 billion in budget authority and $194.9 billion in outlays for this function in FY 1986.

The Committee recommendation assumes a 1-year freeze in FY 1986 on cost-of-living adjustments (COLAs) in the social security program. No recipient benefit check would be reduced by this recommendation. Since 1969, when social security became part of the unified Federal budget, social security benefits have increased by 247 percent, while inflation has increased by 188 percent, and average wages of working Americans by 162 percent. The Committee assumes these savings would be used to improve the solvency of the medicare trust fund. To protect the low-income elderly and disabled, the Committee recommendation in function 600, Income Security, assumes a full COLA for supplemental security income recipients *and* a permanent $10 per month benefit increase for individuals, $15 per month for couples.

The Committee recommendation also assumes savings in this function by improving administration of the social security program by increasing the automation of administrative systems, providing service to railroad retirees through social security offices, and requiring State and local governments to remit social security tax payments on the same schedule as private employers.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

FUNCTION 650 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Finance:				
Forgo cost-of-living increases for social security in FY 1986	BA			
	O	−5,834	−8,003	−8,059
Improve the administration of the social security program	BA			
	O	−88	−150	−229
Total, function 650	BA			
	O	−5,922	−8,153	−8,288

FUNCTION 650 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Old-age and survivors insurance (OASI)	90.1	103.2	122.3	137.9	152.4	159.7
Disability insurance (DI)	14.0	15.4	17.3	18.1	18.3	18.5
Total function	104.1	118.6	139.6	156.0	170.7	178.2
Nominal growth (percent)	11	14	18	12	9	4
Real growth (percent)	0	0	6	4	6	0

Function 700: VETERANS BENEFITS AND SERVICES

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Meet the Nation's obligation to compensate veterans disabled while in military service for their loss of earning power.

—Provide medical care to veterans for disabilities incurred while in military service.

—Compensate the families of veterans who are killed in service or who die from service-related disabilities for the reduction in the family's earning power.

—Help veterans of wartime and draft service return to civilian life on a social and economic basis comparable to their peers who did not perform military duty.

—Provide psychological readjustment services and training opportunities to Vietnam-era veterans with special needs.

—Provide financial assistance to needy veterans and their survivors.

FUNCTION 700 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	27.2	27.7	28.2	28.7
	O	26.3	27.1	27.8	28.4
Committee recommendation	BA	27.2	26.8	27.0	27.4
	O	26.3	26.0	26.3	26.8

COMMITTEE RECOMMENDATION

The Committee recommends $26.8 billion in budget authority and $26.0 billion in outlays for this function in FY 1986.

In order to assist low-income veterans, the Committee's recommendation assumes a full cost-of-living increase for the veterans pension program. In keeping with the Committee's 1-year freeze on non-means-tested programs, veterans receiving compensation benefits would forgo the next cost-of-living adjustment (COLA). The 1-

year freeze on COLA's corresponds to the Committee's recommendation to freeze COLA's for social security and other non-means-tested retirement and disability programs.

For FY 1986, the Committee's recommendation freezes the discretionary appropriated veterans programs at the FY 1985 program level, including VA medical care. Over the FY 1981 through FY 1985 period, spending for VA hospital and medical care programs will increase by 35 percent. In order to achieve the deficit reduction goal, a 1-year freeze on VA medical care and further selected reductions are reasonable.

The Committee's recommendation assumes funding for the ongoing maintenance, renovation, and modernization of existing VA medical facilities as requested by the President. This recommendation assumes the current average rate of construction activities during FY 1986.

As proposed by the President and recommended by GAO, the Committee assumes the enactment of legislation to allow the VA to recover payments for medical care from third-party insurers. Veterans will continue to have access to the VA health care system, but the VA would be able to recover the cost of care provided in VA facilities to non-service-connected disabled veterans with private insurance coverage.

Consistent with the President's user fee initiatives being considered for a variety of Federal credit programs during FY 1986, the Committee's recommendation assumes the enactment of cost sharing legislation for the VA housing loan program. The current VA housing loan origination fee is 1 percent. Veterans generally make no downpayments on their homes, receive interest rates somewhat below the market rate, and receive a Federal guarantee of up to $27,500 on a VA housing loan. The Committee's recommended 3.8 percent loan origination fee corresponds to the current premium for FHA mortgage insurance. Veterans will still receive the substantial benefit of homeownership while these fees will contribute to the solvency of the VA housing loan fund.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

FUNCTION 700 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Veterans' Affairs:				
Reduce Veterans Administration hospital and medical care funding.	BA	−446	−345	−324
	0	−220	−298	−357

FUNCTION 700 RECONCILIATION—Continued

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Allow third-party reimbursement to Veterans Administration for medical care.	BA	−162	−392	−472
	O	−162	−392	−472
Increase Veterans Administration housing loan origination fee	BA			
	O	−353	−352	−255
Reduce funding for remaining discretionary Veterans Administration programs.	BA	−20	−56	−88
	O	−14	−53	−85
Forgo the cost-of-living increase for veterans' compensation in FY 1986.	BA	−345	−420	−428
	O	−310	−419	−427
Total, function 700	BA	−973	−1,213	−1,312
	O	−1,059	−1,514	−1,596

FUNCTION 700 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Veterans compensation	6.7	7.4	8.4	9.3	9.8	9.9
Veterans pensions	3.5	3.6	3.8	3.9	3.9	3.9
Veterans education, training, and rehabilitation	2.8	2.3	2.3	1.9	1.6	1.4
Hospital and medical care for veterans	5.6	6.5	7.0	7.5	8.3	8.9
All other	1.3	1.3	1.6	1.3	1.2	1.6
Total function	19.9	21.2	23.0	24.0	24.8	25.6
Nominal growth (percent)	5	6	9	4	4	3
Real growth (percent)	−5	−6	−2	−3	0	−1

Function 750: ADMINISTRATION OF JUSTICE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Provide for the safety of persons and the protection of their property through law enforcement.

—Provide fair and prompt trials for those accused of Federal crimes and for those involved in civil disputes.

—Operate detention and correctional facilities for persons charged with or convicted of Federal crimes.

—Assist in the improvement of State and local criminal justice systems.

—Represent the interest of the public in civil litigation and in other legal matters.

FUNCTION 750 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	6.5	6.8	7.0	7.1
	O	6.3	6.7	6.9	7.1
Committee recommendation	BA	6.6	6.8	6.9	7.0
	O	6.4	6.7	6.9	7.0

COMMITTEE RECOMMENDATION

The Committee recommends $6.8 billion in budget authority and $6.7 billion in outlays for this function in FY 1986.

The Committee generally assumes that the FY 1986 program level for the discretionary appropriated accounts in this function remains at the FY 1985 level and increases at the projected rate of inflation in FY 1987 and FY 1988. In this function, this means that in general all programs are frozen at the FY 1985 level.

EXPLANATION OF RECONCILIATION DECISIONS

There are no reconciliation instructions in this function.

FUNCTION 750 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Federal Bureau of Investigation	0.6	0.6	0.7	0.7	0.8	0.9
Immigration and Naturalization Service	0.3	0.3	0.4	0.4	0.5	0.5
Drug Enforcement Administration	0.2	0.2	0.2	0.2	0.3	0.3
Customs Service	0.4	0.5	0.5	0.5	0.6	0.6
The Judiciary	0.5	0.5	0.6	0.7	0.8	0.9
Justice Assistance	0.7	0.6	0.5	0.3	0.2	0.1
Legal Services Corporation	0.3	0.3	0.3	0.3	0.2	0.3
Federal prison system	0.3	0.4	0.4	0.4	0.4	0.5
All other	0.9	1.1	1.2	1.2	1.4	1.6
Total function	4.2	4.6	4.8	4.7	5.1	5.7
Nominal growth (percent)	9	10	4	−1	8	11
Real growth (percent)	1	1	−5	−8	4	7

Function 800: GENERAL GOVERNMENT

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Provide a legislative system responsive to the Nation's people.

—Provide national executive leadership and development of Federal management policy.

—Ensure efficiency and accountability in the use of public resources.

—Formulate tax and fiscal policies and conduct the operations of the Federal Government efficiently and effectively.

—Provide central services for all Federal agencies, including property and personnel management.

—Provide for the administration of Pacific Islands Trust Territories.

FUNCTION 800 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	5.7	6.0	6.1	6.3
	O	5.8	5.9	5.9	6.2
Committee recommendation	BA	5.8	5.2	5.3	5.4
	O	5.8	5.2	5.1	5.4

COMMITTEE RECOMMENDATION

The Committee recommends $5.2 billion in budget authority and $5.2 billion in outlays for this function in FY 1986.

The Committee generally assumes that the FY 1986 program level for discretionary appropriated accounts in this function remains at the FY 1985 level and increases at the projected rate of inflation in FY 1987 and FY 1988. In this function, this means that in general all programs are frozen at the FY 1985 level, except for those discussed below.

The Committee recommendation assumes the President's proposal to initiate user fees on processing and commercial operations of the U.S. Customs Service.

The recommendation assumes the President's proposal to have Government-sponsored credit agencies pay a fee to the Treasury when they borrow or issue pass-through securities. These agencies are the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Student Loan Marketing Association, the Farm Credit System, and the Federal Home Loan Bank System. Although privately-owned, these enterprises have a quasi-governmental status and receive certain benefits unavailable to private issuers. The proposed fee would equal less than a dime for every $100 of debt or pass-through securities issued and would facilitate more private sector competition in these markets.

Explanation of Reconciliation Decisions

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

FUNCTION 800 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Agriculture, Nutrition, and Forestry:				
Require fees for Government-sponsored credit agencies	BA	−9	−30	−40
	O	−9	−30	−40
Banking, Housing, and Urban Affairs:				
Require fees for Government-sponsored credit agencies	BA	−32	−103	−159
	O	−32	−103	−159
Finance:				
Levy Customs Service user fees	BA			
	O	−473	−493	−513
Total, function 800	BA	−41	−133	−199
	O	−514	−626	−712

FUNCTION 800 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Legislative branch	0.9	1.0	1.0	1.2	1.2	1.3
Internal Revenue Service	2.1	2.3	2.4	2.5	2.9	3.2
General Services Administration	0.3	0.3	0.1	0.2	0.2	0.2

FUNCTION 800 HISTORICAL DATA—Continued

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
All other	0.6	0.7	1.0	0.6	0.5	0.3
Total function	3.9	4.4	4.6	4.5	4.8	5.1
Nominal growth (percent)	10	13	3	−1	6	6
Real growth (percent)	1	4	−6	−8	2	2

Function 850: GENERAL PURPOSE FISCAL ASSISTANCE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Strengthen the capacities of State and local governments to finance essential public services and cushion the fiscal impact of adverse economic conditions.

—Assist States and localities by sharing receipts generated by Federal land management activities.

FUNCTION 850 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	6.4	6.5	6.8	7.1
	O	6.4	6.5	6.7	7.0
Committee recommendation	BA	6.4	4.2	4.3	2.1
	O	6.4	4.8	4.3	2.6

COMMITTEE RECOMMENDATION

The Committee recommends $4.2 billion in budget authority and $4.8 billion in outlays for this function in FY 1986.

The Committee recommends reducing the general revenue sharing program by one-half in FY 1986 and FY 1987 and terminating it thereafter. General revenue sharing funded less than 2.5 percent of total local expenditures in 1983 and is spread so thinly that over 39,000 local governments receive it. Spreading the FY 1986 payment over 2 years will allow localities time to find alternative sources of funding.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

FUNCTION 850 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Finance:				
Reduce general revenue sharing by one-half in fiscal years 1986 and 1987 and terminate thereafter.	BA			
	O	−1,673	−2,445	−4,385

FUNCTION 850 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
General revenue sharing	6.9	6.8	5.1	4.6	4.6	4.6
Payments and loans to the District of Columbia	0.4	0.3	0.5	0.4	0.5	0.5
Antirecession fiscal assistance	(*)					
All other	1.1	1.4	1.2	1.4	1.3	1.7
Total function	8.4	8.6	6.9	6.4	6.5	6.8
Nominal growth (percent)	−1	3	−20	−7	1	5
Real growth (percent)	−9	−6	−27	−13	−3	1

* Less than $50 million.

Function 900: NET INTEREST

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

Interest is the cost of borrowing or the income from lending money. The net interest function includes both interest paid and interest received by the Federal Government.

Deductions for interest received by trust funds are included to eliminate double counting of budget authority and outlays in order to reflect properly interest transactions with the public.

FUNCTION 900 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	129.7	143.2	159.4	169.9
	O	129.7	143.2	159.4	169.9
Committee recommendation	BA	129.7	142.3	151.6	153.2
	O	129.7	142.3	151.6	153.2

COMMITTEE RECOMMENDATION

The Committee recommends $142.3 billion in budget authority and $142.3 billion in outlays for this function in FY 1986.

The Committee recommendation assumes reductions in interest costs consistent with the deficit reductions contained in the recommended budget resolution.

EXPLANATION OF RECONCILIATION DECISIONS

There are no reconciliation instructions in this function.

FUNCTION 900 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Interest on the public debt	59.8	74.8	95.5	117.2	128.6	153.8
Interest received by trust funds	−10.0	−12.0	−13.8	−16.1	−17.1	−20.4
Other interest	−7.3	−10.2	−13.0	−16.1	−21.7	−22.4
Total function	42.6	52.5	68.7	85.0	89.8	111.1
Nominal growth (percent)	20	23	31	24	6	24
Real growth (percent)	11	13	19	15	2	19

Function 920: ALLOWANCES

Allowances are included in the budget to provide for unspecified requirements or savings that may arise. Such allowances do not represent specific program decisions. Once specific program decisions are made, the allowances shown here are replaced by changes in the appropriate functions of the budget.

At the present time, this function includes an allowance for pay raises for employees of Federal agencies other than the Department of Defense (including Coast Guard military personnel), and proposals to institute several management and work force reforms.

FUNCTION 920 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	0.3	1.2	2.8	4.6
	O	0.3	1.2	3.0	4.9
Committee recommendation	BA	0.3	−2.2	−2.7	−2.0
	O	0.3	−2.2	−2.7	−1.9

COMMITTEE RECOMMENDATION

The Committee recommends −$2.2 billion in budget authority and −$2.2 billion in outlays for this function in FY 1986.

The Committee recommendation assumes a freeze on Federal military and civilian pay raises in FY 1986, followed by pay raises of 3.8 percent in FY 1987 and 4.7 percent in FY 1988, both effective in January of each year. The freeze in FY 1986 is consistent with the Committee's recommendation to freeze cost-of-living increases for retirees. The Committee provides for an FY 1985 pay supplemental sufficient to cover the pay raises that became effective in January 1985, but rejects the President's request for a 3.0-percent pay raise in July 1985 for military personnel.

The Committee recommendation also assumes a 10-percent reduction in agency administrative costs, as proposed by the President. The recommendation assumes a 4-percent reduction in the civilian work force, to be achieved through voluntary attrition; a permanent delay of 1 year for within-grade pay increases; and a change to make permanent the existing method of calculating pay using 2,087 hours per work year, which would otherwise expire on September 30, 1985.

EXPLANATION OF RECONCILIATION DECISIONS

Set forth below are the assumptions that support the reconciliation instructions adopted by the Committee. These instructions are intended to assist in implementation of the Committee recommendation, described above.

FUNCTION 920 RECONCILIATION

[In millions of dollars]

Committee/program		FY 1986	FY 1987	FY 1988
Governmental Affairs:				
Freeze Federal civilian pay in FY 1986 and permanently shift effective date for pay raise to January.	BA			
	O	−1,232	−2,120	−2,557
Institute management and work force reforms	BA			
	O	−2,244	−3,580	−4,311
Total, function 920	BA			
	O	−3,476	−5,700	−6,868

Function 950: UNDISTRIBUTED OFFSETTING RECEIPTS

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

Offsetting receipts are generally deducted from outlays and budget authority at the function, subfunction, or account level. In two instances, however, such payments are deducted from the budget totals as undistributed offsetting receipts. Payments for rents and royalties on the outer continental shelf (OCS) are very large and their inclusion in a particular function would distort the presentation of Federal program costs and are therefore deducted here. Deductions for the payments that each agency makes as its share of employee retirement costs are included here to eliminate double counting of budget authority and outlays.

FUNCTION 950 PROJECTIONS

[In billions of dollars]

		FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	−32.4	−35.5	−38.1	−41.1
	O	−32.4	−35.5	−38.1	−41.1
Committee recommendation	BA	−32.4	−35.0	−37.8	−41.1
	O	−32.4	−35.0	−37.8	−41.1

COMMITTEE RECOMMENDATION

The Committee recommends −$35.0 billion in budget authority and −$35.0 billion in outlays for this function in FY 1986.

The Committee recommendation assumes lower receipts than the baseline in FY 1986 and FY 1987 as a result of reduced employer contributions to employee retirement funds caused by the pay recommendations discussed in functions 050 and 920. This reduction is partially offset in FY 1986 and FY 1987 and completely offset in FY 1988 by the recommendation to phase in contributions to the civil service retirement fund by the Postal Service, as discussed in function 370.

The Committee also assumes the baseline levels for outer continental shelf receipts.

EXPLANATION OF RECONCILIATION DECISIONS

There are no reconciliation instructions in this function.

FUNCTION 950 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Employer share, employee retirement:						
Military retirement	−8.9	−10.1	−11.5	−12.8	−15.4	−16.5
Civilian retirement	−5.3	−5.8	−6.4	−7.0	−8.1	−8.8
Subtotal	−14.2	−15.8	−17.9	−19.8	−23.5	−25.3
Rents and royalties on the Outer Continental Shelf	−3.3	−4.1	−10.1	−6.2	−10.5	−6.7
Total function	−17.5	−19.9	−28.0	−26.1	−34.0	−32.0
Nominal growth (percent)	11	14	41	−7	30	−6
Real growth (percent)	2	5	28	−13	25	−9

Chapter V. RECONCILIATION AND APPROPRIATIONS CAPS

RECONCILIATION

The resolution includes instructions to Senate committees and their House counterparts to recommend changes in laws within their jurisdiction to reduce spending. If adopted, these instructions would mandate that the committees of Congress take actions that will result in savings of $29.9 billion in outlays and an increase of $0.4 billion in contributions in FY 1986, savings of $48.0 billion in outlays and an increase of $1.3 billion in contributions in FY 1987, and savings of $59.5 billion in outlays and an increase of $1.4 billion in contributions in FY 1988. The major program reductions which the Budget Committee assumed in developing these instructions are discussed in Chapter IV, Spending. Table 1 summarizes these assumptions.

The reconciliation process is described in section 310 of the Congressional Budget Act of 1974. While originally envisioned as part of a second concurrent resolution on the budget, reconciliation has proven most useful when implemented earlier in the budget process. Thus, the first concurrent resolutions on the budget for FY 1981, FY 1982, FY 1983, and FY 1984 contained reconciliation instructions.

In the instructions contained in this resolution, Senate and House committees are instructed to transmit their recommendations to the respective Budget Committees by June 15, 1985. The Budget Committees will then package these recommendations, making no substantive changes, and report the resulting reconciliation bills to their respective chambers.

Reconciliation permits Congress to instruct its committees to revise existing laws in order to achieve spending reductions in the amounts specified in reconciliation instructions contained in a budget resolution. The process allows the individual committees to exercise their full judgment on the laws to be changed and on the changes that should occur. Reconciliation recognizes existing committee jurisdiction over programs while enabling the Congress to consider rationally its fiscal policies.

APPROPRIATIONS "CAPS"

In addition to the reconciliation instructions contained in the resolution, the Committee recommends that caps on appropriations be applied for fiscal years 1986-88 as to both defense and nondefense discretionary spending. These caps provide the tool for enforcement, through a point of order, of the "freeze" portion of the Committee's recommendations. When combined with the reconciliation instructions to the authorizing committees, which achieve spending policy changes beyond the "freeze," these caps complete the picture of spending restraint adopted by the Committee. Table 2 summarizes the caps recommended by the Committee.

Table 1

SUMMARY OF RECONCILIATION BY SENATE COMMITTEE

[In millions of dollars]

Committee/function/program	FY 1986		FY 1987		FY 1988	
	BA	0	BA	0	BA	0
AGRICULTURE, NUTRITION, AND FORESTRY COMMITTEE:						
270: Reduce rural electric loan levels	−32	−32	−181	−181	−323	−323
300: Reduce funding for soil and water conservation programs	−221	−116	−221	−195	−323	−262
300: Reduce Forest Service programs	−52	−12	−113	−87	−127	−111
300: Initiate recreation user fees	−21	−21	−22	−22	−23	−23
350: Reform Agricultural Stabilization and Conservation Service programs				−727		−1,293
600: Reform Food and Nutrition Service programs	−854	−800	−1,197	−1,178	−1,343	−1,338
800: Require fees for Government sponsored credit agencies	−9	−9	−30	−30	−40	−40
Total, Agriculture Committee	−1,189	−990	−1,764	−2,420	−2,179	−3,390
ARMED SERVICES COMMITTEE:						
600: Forgo the cost-of-living increase for military retirement in FY 1986 and further reform the system.	−531	−639	−745	−1,210	−838	−1,718
BANKING, HOUSING, AND URBAN AFFAIRS COMMITTEE:						
150: Reduce cost of Export-Import Bank loan program	−2,793	−207	−2,963	−783	−3,141	−1,183
370: End Farmers Home Administration rural housing programs	−3,437	−2,044	−3,699	−3,105	−4,103	−3,575
400: Reduce urban mass transit assistance	−1,059	−223	−1,195	−443	−1,328	−701
450: Reduce urban development action grants and terminate certain loan programs	−92	−23	−80	−138	−156	−195
450: Terminate rental development grants and impose a 2-year moratorium on rental rehabilitation grants.	−277	−51	−290	−193	−152	−288
450: Reduce community development block grants	−343	−7	−325	−137	−326	−308

Table 1—Continued

[In millions of dollars]

Committee/function/program		FY 1986		FY 1987		FY 1988	
		BA	O	BA	O	BA	O
450:	Reform national flood insurance program	−50	−22	−98	−87	−112	−110
600:	Reform financing of public housing capital costs		−1,070		−1,100		−1,104
600:	Reduce funding to operate existing public housing projects	−557	−404	−634	−596	−701	−664
800:	Require fees for Government sponsored credit agencies	−32	−32	−103	−103	−159	−159
	Total, Banking, Housing, and Urban Affairs Committee	−8,640	−4,083	−9,387	−6,685	−10,178	−8,287
COMMERCE, SCIENCE, AND TRANSPORTATION COMMITTEE:							
300:	Increase National Oceanic and Atmospheric Administration fees	−14	−14	−19	−19	−23	−23
400:	Reduce Amtrak subsidies	−239	−208	−336	−309	−432	−413
400:	Sell Conrail	−1,200	−1,200				
400:	Reduce funding for airway research, development, facilities, and equipment	−295	−24		−58		−67
400:	Eliminate certain railroad programs	−50	−7	−52	−17	−55	−33
400:	Allow construction differential subsidy paybacks	−200	−200				
	Total, Commerce, Science, and Transportation Committee	−1,998	−1,653	−407	−403	−510	−536
ENERGY AND NATURAL RESOURCES COMMITTEE:							
270:	Reduce funding for fossil energy research and development	−38	−12	−39	−31	−39	−39
270:	Reform the uranium enrichment program	−80	−110	−98	−202	−136	−264
270:	Impose moratorium on funding for strategic petroleum reserve oil acquisition and related facilities construction.	−1,964	−1,729	−1,835	−1,768	−1,710	−1,779
270:	Reduce funding for energy supply research and development	−126	−64	−130	−112	−136	−133
270:	Reduce funding for energy conservation	−69	−10	−70	−36	−72	−67
270:	Reduce funding for naval petroleum and oil shale activities	−191	−45	−32	−44	−36	−45
270:	Increase Federal Energy Regulatory Commission fees	−14	−14	−28	−28	−31	−31

300:	Reduce funding for discretionary public land acquisition	-142	-44	-140	-84	-142	-106
300:	Initiate recreation user fees	-40	-40	-42	-42	-45	-45
300:	Reduce funding for Bureau of Reclamation programs	-80	-59	-70	-70	-120	-103
300:	Reduce funding for National Park Service operation and construction	-115	-31	-129	-73	-135	-100
300:	Reduce funding for Bureau of Land Management programs	-43	-39	-50	-47	-57	-53
300:	Reduce abandoned mine reclamation fund spending	-60	-56	-60	-32	-61	-49
	Total, Energy and Natural Resources Committee	-2,962	-2,253	-2,723	-2,569	-2,720	-2,814
ENVIRONMENT AND PUBLIC WORKS COMMITTEE:							
270:	Reduce funding for Nuclear Regulatory Commission programs	-31	-17	-49	-42	-69	-62
300:	Reduce funding for Fish and Wildlife Service programs	-51	-29	-43	-102	-44	-100
300:	Reduce Corps of Engineers programs	-150	-105	-18	-58		-5
300:	Initiate recreation user fees	-21	-21	-21	-21	-21	-21
400:	Reduce Federal-aid highway programs		-64	-589	-1,002	-1,080	-1,571
450:	Terminate Economic Development Administration and Appalachian Regional Commission	-380	-45	-402	-155	-422	-274
450:	Reduce the funding for Tennessee Valley Authority development programs	-86	-25	-86	-71	-84	-79
	Total, Environment and Public Works Committee	-719	-306	-1,208	-1,451	-1,720	-2,112
FINANCE COMMITTEE:							
370:	Eliminate trade adjustment assistance to firms		-20		-28		-33
500:	Eliminate the work incentive program		-217		-288		-302
550:	Reduce medicaid outlays		-260		-320		-320
570:	Reduce medicare outlays		-3,174		-5,418		-7,989
600:	Increase Pension Benefit Guarantee Corporation insurance premiums		-184		-206		-231
600:	Reform railroad retirement and unemployment programs				-10		-20
	Forgo cost-of-living increases for social security and related non-means-tested programs in FY 1986:						
	600		-131		-180		-186
	650		-5,834		-8,003		-8,059
650:	Improve the administration of the social security program		-88		-150		-229
800:	Levy Customs Service user fees		-473		--493		-513

Table 1—Continued

[In millions of dollars]

Committee/function/program	FY 1986 BA	FY 1986 O	FY 1987 BA	FY 1987 O	FY 1988 BA	FY 1988 O
850: Reduce general revenue sharing by one-half in fiscal years 1986 and 1987 and terminate thereafter.		−1,673		−2,445		−4,385
Total, Finance Committee		−12,054		−17,541		−22,267
FOREIGN RELATIONS COMMITTEE:						
150: Consolidate less effective foreign aid	−314	−260	−938	−501	−1,193	−350
150: Restrain foreign information and exchange activities	−38	−27	−40	−35	−41	−40
150: Restrain conduct of foreign affairs activities	−95	−70	−98	−90	−145	−140
Total, Foreign Relations Committee	−447	−357	−1,076	−626	−1,379	−530
GOVERNMENTAL AFFAIRS COMMITTEE:						
370: Reform postal subsidies				−1,359		−747
400: Reduce Washington Metro subsidies		−4		−19		−37
550: Reform the Federal employees' health benefits program		−60		−130		−210
600: Reform the Federal civilian retirement system (spending)		−11		−396		−918
600: Forgo cost-of-living increases for civil service retirement and related programs in FY 1986		−725		−971		−992
600: Reduce other programs				−268		−645
920: Freeze Federal civilian pay in FY 1986 and permanently shift effective date for pay raise to January.		−1,232		−2,120		−2,557
920: Institute management and work force reforms		−2,244		−3,580		−4,311
Total, Governmental Affairs Committee (spending)		−4,276		−8,843		−10,417
600: Reform the Federal civilian retirement system (contributions)		+375		+1,325		+1,370

LABOR AND HUMAN RESOURCES COMMITTEE:							
500:	Terminate impact aid, part B	−187	−148	−188	−174	−209	−205
500:	Reduce elementary and secondary education programs	−499	−31	−690	−410	−899	−668
500:	Reform guaranteed student loans	−200	−200	−300	−300	−400	−400
500:	Reform the Job Corps, decrease job training, and reform the employment service	−937	−253	−1,002	−1,059	−1,161	−1,310
500:	Reduce support for cultural activities	−200	−62	−220	−132	−240	−199
500:	Eliminate the community services block grant	−386	−274	−409	−402	−427	−422
550:	Reform health professions education funding	−243	−64	−255	−191	−269	−246
550:	Set the number of new and competing National Institutes of Health awards at 5,500	−323	−136	−388	−341	−473	−422
	Total, Labor and Human Resources Committee	−2,975	−1,168	−3,452	−3,009	−4,078	−3,872
SMALL BUSINESS COMMITTEE:							
370:	Reduce funding for Small Business Administration business assistance	−561	−540	−895	−950	−982	−1,001
450:	Terminate Small Business Administration disaster assistance programs	−882	−438	−490	−661	−918	−734
	Total, Small Business Committee	−1,443	−978	−1,385	−1,611	−1,900	−1,735
VETERANS' AFFAIRS COMMITTEE:							
700:	Reduce Veterans Administration hospital and medical care funding	−446	−220	−345	−298	−324	−357
700:	Allow third-party reimbursement to Veterans Administration for medical care	−162	−162	−392	−392	−472	−472
700:	Increase Veterans Administration housing loan origination fee		−353		−352		−255
700:	Reduce funding for remaining discretionary Veterans Administration programs	−20	−14	−56	−53	−88	−85
700:	Forgo the cost-of-living increase for veterans' compensation in FY 1986	−345	−310	−420	−419	−428	−427
	Total, Veterans' Affairs Committee	−973	−1,059	−1,213	−1,514	−1,312	−1,596
SELECT COMMITTEE ON INDIAN AFFAIRS:							
450:	Reduce funding for the Bureau of Indian Affairs	−60	−23	−68	−54	−76	−70
550:	Reduce funding for the Indian Health Service	−132	−64	−133	−97	−137	−111
	Total, Select Committee on Indian Affairs	−192	−87	−201	−151	−213	−181
	Total reconciliation spending savings	−22,069	−29,903	−23,561	−48,033	−27,027	−59,455
	Total contributions		+375		+1,325		+1,370

Table 2

APPROPRIATION "CAPS"

[In billions of dollars]

	Budget authority		
	FY 1986	FY 1987	FY 1988
Appropriations Committee:			
Defense cap	303.2	324.1	347.6
Nondefense discretionary cap	136.6	140.4	145.4

Chapter VI. CREDIT

The budget authority and outlay totals in the budget provide an incomplete picture of Federal credit activity. They measure loan programs on a net cash flow basis—that is, outlays minus receipts. They do not measure the full volume of new credit extended for direct loans and exclude loan guarantee commitments.

The credit budget offers an alternative way of measuring loan program activity. It records the total dollar amount of direct loan obligations and loan guarantee commitments, without offsets for repayments. It covers all Government credit programs, including those previously defined as off-budget.

The resolution includes aggregates and functional allocations for three types of Federal credit transactions: direct loans, primary loan guarantees, and secondary loan guarantees.

A *direct loan* (DL) is a disbursement of funds to a non-Federal entity under an agreement that the amount will be repaid, with or without interest. Direct loan obligations are recorded in the credit budget when the Government becomes legally bound to extend credit assistance. They result in outlays when funds are disbursed to borrowers.

A *primary loan guarantee* (PLG) is a pledge to pay part or all of the amount due to a lender in the event of default by a borrower. Loan guarantee commitments are recorded in the credit budget when the Government becomes legally bound to extend credit assistance. They result in outlays only if borrowers default.

A *secondary loan guarantee* (SLG) is a commitment to guarantee a loan that has already been insured by the Federal Government, such as the guarantee of securities backed by federally insured mortgages. Secondary loan guarantees do not increase the contingent liability of the Government.

CREDIT BASELINE

Each year, the Congressional Budget Office (CBO) estimates a credit budget baseline, showing the level of Federal credit activity that would result if current policies remained in place. Table 1 summarizes the CBO credit budget baseline by function.

For programs subject to appropriation limits in FY 1985, the baseline assumes that limits will be allowed to increase in future years to offset the effect of inflation. There are two exceptions to this rule: programs for which projections would exceed authorizing statutes and programs in which appropriations limits are expected to exceed actual obligations or commitments. For programs not limited in an appropriation act in FY 1985, the baseline assumes CBO's estimate of activity in future years.

The baseline includes a one-time obligation of $13 billion in FY 1985 to convert the financing of certain public housing projects from tax-exempt notes to direct Federal loans. Net of this one-time disbursement, the CBO baseline projects that the volume of direct loans will grow from $39 billion in FY 1985 to $42 billion in FY 1988. Primary loan guarantee commitments are projected to increase from $69 billion to $80 billion over the same period.

President's Credit Budget Request

The President's budget for FY 1986 includes several major proposals affecting the level of Federal credit activity. It would reduce or end a number of loan programs, which in turn would reduce outlays and lower the deficit.

Table 2 summarizes the President's budget request by function, as re-estimated by CBO. It shows that Administration proposals would reduce direct loan obligations by $59 billion from the baseline in fiscal years 1986–88, while increasing loan guarantee commitments by $6 billion over the same period.

Major credit proposals in the President's budget include the following: elimination of direct loans by the Export-Import Bank; reductions in credit assistance for agriculture and rural electric and telephone cooperatives; termination of loan programs for rural housing and development, community development, and small business; new restrictions on guaranteed student loans; and increased fees for many credit programs, including FHA and VA housing guarantees.

Committee Recommendation

The Committee recommendation for the credit budget assumes $33.9 billion in direct loan obligations, $73.6 billion in primary loan guarantee commitments, and $68.2 billion in secondary loan guarantees in FY 1986. Table 3 summarizes the totals assumed in the resolution by function. These recommendations are nonbinding targets.

While it did not accept all of the credit proposals included in the President's budget, the Committee recommended changes that would reduce direct loans by $28 billion from the baseline in fiscal years 1986–88. Primary loan guarantees would decrease by $5 billion over the same period.

Compared to the President's budget, the Committee recommendation assumes $31 billion more in direct loans over 3 years. It assumes $11 billion less in primary loan guarantee commitments.

Major credit proposals assumed in the resolution include the following: reduced direct loans but expanded loan guarantees by the Export-Import Bank; elimination of direct loans for rural housing;

a reduction in Small Business Administration business loans and an end to SBA disaster loans; and an increase in fees for VA housing guarantees.

The resolution assumes $68.2 billion in secondary loan guarantees, which equals the current limit on the Government National Mortgage Association mortgage-backed securities. Although higher than the CBO baseline and re-estimate of the President, this represents a difference in scoring, not in policy.

BUDGETARY TREATMENT OF FEDERAL CREDIT PROGRAMS

As part of its discussion of the Budget Resolution, the Committee considered a proposal for the sale of Federal loan assets to private investors. While it did not accept the proposal as an answer to the problem of deficit reduction, several members of the Committee expressed an interest in the idea as a means of improving the budgetary treatment of Federal credit programs.

The Committee recognizes that the current budget treatment of these programs does not accurately reflect their cost to the Government. The spending budget understates the cost of credit programs while the credit budget overstates their true cost. The Committee would encourage further work in this area to develop a better, more meaningful measure of the cost of Federal credit programs.

Table 1

CREDIT BUDGET BASELINE BY FUNCTION

[In billions of dollars]

Function	Activity	FY 1985	FY 1986	FY 1987	FY 1988
150: International Affairs	DL	10.1	11.7	12.3	12.7
	PLG	10.3	10.8	11.2	11.7
270: Energy	DL	2.7	2.7	2.7	2.8
	PLG	0.1	4.1		
300: Natural Resources and Environment	DL	0.1	0.1	0.1	0.1
	PLG				
350: Agriculture	DL	13.8	14.4	13.2	12.9
	PLG	5.7	5.7	5.8	5.8
370: Commerce and Housing Credit	DL	6.5	6.8	7.1	7.7
	PLG	26.4	27.7	29.3	31.1
	SLG	41.3	43.1	45.0	46.9
400: Transportation	DL	0.3	0.2	0.1	0.1
	PLG	0.3	0.3	0.3	0.3
450: Community and Regional Development	DL	1.7	1.5	2.0	2.3
	PLG	0.2	0.2	0.2	0.2

Table 1—Continued

[In billions of dollars]

Function	Activity	FY 1985	FY 1986	FY 1987	FY 1988
500: Education, Training, Employment, and Social Services.	DL	1.2	1.1	1.1	1.1
	PLG	8.8	9.1	9.4	9.6
550: Health	DL	(*)	(*)	(*)	(*)
	PLG	0.2	0.3	0.3	0.3
600: Income Security	DL	14.3	1.8	2.3	1.8
	PLG				
700: Veterans Benefits and Services	DL	1.3	1.3	1.2	1.1
	PLG	16.8	17.6	18.8	20.9
Totals	DL	51.9	41.6	42.3	42.5
	PLG	68.8	75.7	75.2	79.9
	SLG	41.3	43.1	45.0	46.9

*Less than $50 million.

Table 2

PRESIDENT'S CREDIT BUDGET REQUEST AS RE-ESTIMATED BY CBO

[In billions of dollars]

Function	Activity	FY 1985	FY 1986	FY 1987	FY 1988
150: International Affairs	DL	11.1	8.1	8.4	8.6
	PLG	10.3	12.2	12.2	12.2
270: Energy	DL	2.6	1.0	0.8	0.5
	PLG	0.1	4.1		
300: Natural Resources and Environment	DL	0.1	0.1	0.1	(*)
	PLG				
350: Agriculture	DL	13.8	10.1	7.2	4.8
	PLG	5.7	6.5	6.5	6.5
370: Commerce and Housing Credit	DL	6.6	1.9	1.9	2.7
	PLG	34.0	33.1	35.1	36.9
	SLG	41.3	43.1	45.0	46.9
400: Transportation	DL	0.3	0.2	0.1	0.1
	PLG	0.3	0.3	0.3	0.3
450: Community and Regional Development	DL	1.9	0.4	0.2	0.3
	PLG	0.2	(*)	(*)	(*)

Table 2—Continued

[In billions of dollars]

Function	Activity	FY 1985	FY 1986	FY 1987	FY 1988
500: Education, Training, Employment, and Social Services.	DL	1.1	0.9	0.8	0.8
	PLG	8.8	7.6	6.1	6.2
550: Health	DL	(*)	(*)	(*)	(*)
	PLG	0.2	0.1	0.1	0.1
600: Income Security	DL	14.3	1.8	1.4	0.6
	PLG				
700: Veterans Benefits and Services	DL	1.3	1.3	1.3	1.3
	PLG	16.8	14.2	16.7	19.5
Totals	DL	53.2	25.8	22.2	19.7
	PLG	76.4	78.1	76.9	81.7
	SLG	41.3	43.1	45.0	46.9

*Less than $50 million.

Table 3

COMMITTEE CREDIT BUDGET RECOMMENDATIONS BY FUNCTION

[In billions of dollars]

Function	Activity	FY 1985	FY 1986	FY 1987	FY 1988
150: International Affairs	DL	11.5	9.4	9.0	9.2
	PLG	10.3	12.3	12.3	12.3
270: Energy	DL	2.6	2.1	2.1	2.2
	PLG	0.1	4.1		
300: Natural Resources and Environment	DL	0.1	0.1	0.1	(*)
	PLG				
350: Agriculture	DL	13.8	14.3	13.1	12.8
	PLG	5.7	5.7	5.7	5.8
370: Commerce and Housing Credit	DL	6.6	2.7	2.8	3.0
	PLG	27.0	26.5	28.1	29.8
	SLG	68.2	68.2	68.2	68.2
400: Transportation	DL	0.3	0.2	0.1	0.1
	PLG	0.3	0.3	0.3	0.3
450: Community and Regional Development	DL	1.8	0.9	0.8	0.9
	PLG	0.2	0.2	0.2	0.2

Table 3—Continued

[In billions of dollars]

Function	Activity	FY 1985	FY 1986	FY 1987	FY 1988
500: Education, Training, Employment, and Social Services.	DL	1.1	1.1	1.0	1.0
	PLG	8.8	9.1	9.4	9.6
550: Health	DL	(*)	(*)	(*)	(*)
	PLG	0.2	0.2	0.3	0.3
600: Income Security	DL	14.3	1.8	2.3	1.8
	PLG				
700: Veterans Benefits and Services	DL	1.3	1.3	1.2	1.2
	PLG	16.8	15.3	17.4	20.1
Totals	DL	53.5	33.9	32.7	32.2
	PLG	69.3	73.6	73.6	78.3
	SLG	68.2	68.2	68.2	68.2

* Less than $50 million.

Chapter VII. VIEWS AND ESTIMATES OF SENATE COMMITTEES

Section 301(c) of the Congressional Budget Act calls on the committees of the Senate and House to report to their respective Budget Committees by March 15 of each year their views and estimates of budget requirements for matters within their jurisdictions to assist the Budget Committees in preparing the first budget resolution.

Because of the accelerated budget schedule this year, the Senate Budget Committee requested the committees of the Senate to report whatever views and estimates they were able to develop by March 1, 1985, recognizing that they would in most cases not be able to submit as detailed a report as would normally be the case.

Following is the letter sent by the Budget Committee to the other committees of the Senate requesting their early views, together with the responses received.

PETE V. DOMENICI, N. MEX., CHAIRMAN

WILLIAM L. ARMSTRONG, COLO.
NANCY LANDON KASSEBAUM, KANS.
RUDY BOSCHWITZ, MINN.
ORRIN G. HATCH, UTAH
JOHN TOWER, TEX.
MARK ANDREWS, N. DAK.
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STEPHEN BELL, STAFF DIRECTOR
RICHARD N. BRANDON, MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON THE BUDGET
WASHINGTON, D.C. 20510

February 22, 1985

The Honorable
Chairman
Committee on
Washington, D.C. 20510

The Honorable
Ranking Minority Member
Committee on
Washington, D.C. 20510

Dear :

We all share a desire to take prompt action to reduce the federal deficit. Such action will involve difficult choices and require all the expertise we can garner from the committees of the Senate.

We know that you are considering various deficit reduction proposals, and we would like to have the benefit of your thoughts as we proceed with markup of the first budget resolution for fiscal year 1986. We hope to complete our work and report a budget resolution to the Senate earlier than the April 15 statutory deadline. This should help in assuring adequate time for floor debate on the resolution and as much time as possible for the Senate to consider subsequent deficit reduction measures.

We would appreciate receiving your views on how much deficit reduction you believe can be achieved in fiscal years 1986, 1987, and 1988 in programs within your jurisdiction, to the extent that you have not communicated them to us already. We would also like to know of any high priority areas where you believe budget increases are necessary. In assigning a numerical value to any such reductions or increases, we ask that you take as your point of departure the baseline for fiscal years 1986-88 set forth in the annual report of the Congressional Budget Office which was released on February 6, 1985.

Since we hope to accelerate our markup of the budget resolution this year, we ask that you make every effort to give us your views no later than Friday, March 1, 1985. This communication, together with any earlier reports from you, would replace the report normally required by March 15 under the Congressional Budget Act.

We look forward to working with you as we develop a budget plan for consideration by the Senate. If you have any questions, please call us or have your staff call Steve Bell, the Majority Staff Director, at 4-0846 or Rick Brandon, the Minority Staff Director, at 4-0836.

Sincerely,

Lawton
Lawton Chiles
Ranking Minority Member

Pete
Pete V. Domenici
Chairman

MARK O. HATFIELD, OREG., CHAIRMAN

TED STEVENS, ALASKA
LOWELL P. WEICKER, JR., CONN.
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JOHN C. STENNIS, MISS.
ROBERT C. BYRD, W. VA.
WILLIAM PROXMIRE, WIS.
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DALE BUMPERS, ARK.

J. KEITH KENNEDY, STAFF DIRECTOR
FRANCIS J. SULLIVAN, MINORITY STAFF DIRECTOR

United States Senate
COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

March 1, 1985

The Honorable Pete V. Domenici
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

The Honorable Lawton Chiles
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Pete and Lawton:

This is in response to your request for the views of the Appropriations Committee on the fiscal year 1986 budget.

A timely response to your letter does not permit the Committee to achieve consensus on a set of specific spending recommendations. The fiscal year 1986 appropriations process has just started. Subcommittees have begun to hold hearings on programs under their jurisdiction; this is the initial step in making eventual-program spending decisions. I do have some personal views on the budget to share with you however.

The Administration's proposed fiscal year 1986 budget again relies most heavily on cuts in nondefense discretionary spending to achieve deficit reduction, while proposing 5.9% real growth in fiscal year 1986 defense spending. The Appropriations Committee has long registered its concern that spending cuts have fallen most heavily on nondefense discretionary spending programs. These programs, which are controllable through the appropriations process, represent the only declining portion of the budget in recent years. True deficit reduction must place greater emphasis on the growing portions of the federal budget -- on national defense and entitlement and other mandatory spending.

On this note, I would advocate a deficit reduction plan that embodies a comprehensive one-year freeze on federal spending, including defense and social security cost-of-living increases. Although not a preferred course of action, revenue increases should not be "off limits" if additional action is required to achieve significant reduction in the deficit.

With respect to nondefense discretionary spending under the Committee's jurisdiction, I believe this Committee could live with a "freeze" on total budget authority for fiscal year 1986 equal to the total fiscal year 1985 budget authority level for these programs. Beyond this, I believe we can abide by any policy changes enacted into law enabling us to achieve further savings in programs under our jurisdiction.

I applaud your Committee's effort to move expeditiously on a budget resolution for fiscal year 1986. As Chairman, I can assure you that the Appropriations Committee will continue to report bills consistent with the appropriations levels allocated to it under any adopted budget resolution.

If I can be of assistance to you in the formulation of a deficit reduction plan, please feel free to call on me.

Sincerely,

Mark O. Hatfield
Chairman

JAKE GARN, UTAH, CHAIRMAN

JOHN TOWER, TEXAS
JOHN HEINZ, PENNSYLVANIA
WILLIAM L. ARMSTRONG, COLORADO
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JIM SASSER, TENNESSEE
FRANK R. LAUTENBERG, NEW JERSEY

M. DANNY WALL, STAFF DIRECTOR
KENNETH A. McLEAN, MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS
WASHINGTON, D.C. 20510

March 1, 1985

Honorable Pete V. Domenici
Chairman
Committee on the Budget
U.S. Senate
Washington, D.C. 20510

Honorable Lawton Chiles
Ranking Minority Member
Committee on the Budget
U.S. Senate
Washington, D.C. 20510

Dear Pete:

Thank you for your letter of February 22 regarding proposals for reducing the federal budget deficit. Because of the lateness in organizing the Senate Committees, we are unable to provide you with a formal report on the views of the Senate Committee on Banking, Housing, and Urban Affairs regarding deficit reduction proposals within our area of jurisdiction by March 1, as requested in your letter.

Speaking as individual Senators, our view is that reducing the budget deficit is our number one priority in economic policy. Many painful choices must be made if we are to accomplish a significant reduction in the budget deficits projected over the next several years. Popular and worthwhile programs whose funding we might support under other circumstances will have to be reduced if we are to make any progress on reducing our budget deficit. The President's Budget proposal would accomplish savings in outlays for programs in this Committee's jurisdiction of approximately $4 billion in FY86, $7 billion in FY87, and $9 billion in FY88. As the Chairman and Ranking Minority Member of the Committee we will try to accomplish such an aggregate level of savings.

We would also observe that Paul Volcker, Chairman of the Federal Reserve Board, has testified that a reduction of $50 billion in the projected deficit for fiscal year 1986 would send a strong signal to the financial community that we are serious about reducing the deficit and, as a result, interest rates should be lower than they otherwise would be. Certainly, a meaningful reduction in interest rates would be of great benefit to the economy and to many of the program objectives under the jurisdiction of the Banking Committee.

We therefore urge your Committee to move quickly on a proposed budget resolution for fiscal year 1986 that will substantially narrow the projected deficit in fiscal year 1986 and the years beyond. We and our staff stand ready to work with you towards this end.

Sincerely,

Bill

William Proxmire
Ranking Minority Member

Jake

Jake Garn
Chairman

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MICHAEL STERN, MINORITY STAFF DIRECTOR

United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510

March 5, 1985

The Honorable Pete V. Domenici
Chairman
Committee on the Budget
Washington, D.C. 20510

Dear Mr. Chairman:

This letter responds to your letter of February 22, 1985, and transmits the view of a majority of the members of the Committee on Finance on how much deficit reduction can be achieved in fiscal years 1986, 1987 and 1988 in programs within the Committee's jurisdiction. As you indicated in your letter, this communication replaces the "views and estimates" report normally required under section 301(c) of the Congressional Budget Act.

For fiscal years 1986, 1987 and 1988, according to spending cuts recommended by the Office of Management and Budget (OMB) and the Budget Committee, the Finance Committee would need to achieve savings amounting to $63.3 billion (based on estimates made by OMB). As you requested, we have had the savings of those spending cuts reestimated by the Congressional Budget Office (CBO). According to CBO and the Budget Committee as of February 28, 1985, those same spending cuts would achieve savings of about $51.2 billion.

The Finance Committee will meet its responsibility for achieving $51.2 billion in spending cuts over the three fiscal years in question IF ALL OTHER MAJOR COMMITTEES CAN MEET THE SPENDING CUTS TOTALS REQUIRED OF THEM.

To the extent that CBO changes its baseline projections or its estimates of savings for any programs within the Finance Committee's jurisdiction and to the extent the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in our spending reductions goal.

The Finance Committee has not agreed to any specific list of spending cuts and reserves the right to achieve a reduction in spending for programs within its jurisdiction in such amounts and in any manner it determines is necessary and appropriate.

We hope that this information is helpful to the Budget Committee in its deliberations on the first concurrent resolution on the budget for fiscal year 1986. The Finance Committee staff is available to answer any questions you may have.

Sincerely,

Bob

BOB PACKWOOD

WILLIAM V. ROTH, JR., DELAWARE, CHAIRMAN

TED STEVENS, ALASKA
CHARLES McC. MATHIAS, JR., MARYLAND
WILLIAM S. COHEN, MAINE
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JOHN M. DUNCAN, STAFF DIRECTOR
MARGARET P. CRENSHAW, MINORITY STAFF DIRECTOR

United States Senate
COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510

March 6, 1985

The Honorable Pete V. Domenici
Chairman
Committee on the Budget
United States Senate
Washington, D. C. 20510

The Honorable Lawton Chiles
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, D. C. 20510

Dear Pete and Lawton:

In accordance with Section 301 of the Congressional Budget Act of 1974, we are submitting the views and estimates of the Committee on Governmental Affairs with respect to the funding of programs within our jurisdiction.

We are deeply concerned about the size of the federal budget deficit, and as Chairman and Ranking Minority Member of the Governmental Affairs Committee, stand ready to cooperate with efforts to reduce expenditures. We have reviewed the spending jurisdiction of the Committee, and expect that budgetary savings which meet the three-year total of the savings proposed by the President which are within the jurisdiction of the Governmental Affairs Committee may be possible.

We oppose the 5 percent pay cut to federal employees which has been proposed in the President's budget, and we are in the process of meeting with members of the Committee to gauge the extent of support for various other measures which could achieve equivalent savings.

As you may know, the Committee is developing legislation to provide a new Civil Service retirement system for federal employees. Since the features of the new system have not been determined, it is impossible to calculate the level of savings that might be achieved in this new system.

Budget reductions of the magnitude proposed by the President would require significant sacrifices by federal retirees and employees. We are very concerned that no single group carry an unfair share of the sacrifices required and urge that reductions be evenly distributed in all areas of the budget.

We are sure you can appreciate that making savings of this amount within the jurisdiction of the Governmental Affairs Committee may not be possible unless it is clear that an appropriate share of the necessary budget sacrifices will be borne by the Defense Department. In particular, we believe that retirees and employees in both the military and civilian side of government should share in any sacrifices required of federal employees.

Sincerely,

Bill
William V. Roth, Jr.
Chairman

Tom
Thomas F. Eagleton
Ranking Minority Member

STROM THURMOND, S.C., CHAIRMAN
CHARLES McC. MATHIAS, JR., MD.
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United States Senate
COMMITTEE ON THE JUDICIARY
WASHINGTON, D.C. 20510

March 4, 1985

The Honorable Pete V. Domenici
Chairman
Committee on the Budget
Washington, D.C. 20510

The Honorable Lawton Chiles
Ranking Minority Member
Committee on the Budget
Washington, D.C. 20510

Dear Pete and Lawton:

In response to your letter of February 22, 1985, and pursuant to Section 301 (c) of the Congressional Budget Act, enclosed is the March report outlining the levels of spending for programs under the jurisdiction of the Senate Committee on the Judiciary. We hope it will be helpful to you in connection with the First Concurrent Budget Resolution.

Sincerely,

Joe Biden
Joseph R. Biden, Jr.
Ranking Minority Member

Strom Thurmond
Strom Thurmond
Chairman

COMMITTEE ON THE JUDICIARY
NARRATIVE STATEMENT ON SPENDING REQUIREMENTS

Overview

Rule XXV of the Standing Rules of the Senate grants to the Committee on the Judiciary jurisdiction over, among other things, the Federal courts and judges, immigration and naturalization matters, civil and criminal judicial proceedings, national penitentiaries, patents, copyrights, trademarks, and the protection of trade and commerce against unlawful restraints. As a result, the Committee exercises oversight responsibility over the judiciary and a wide variety of Executive Branch agencies, including the Department of Justice, the Patent and Trademark Office, the Bureau of Alcohol, Tobacco and Firearms, and the Secret Service.

In recent Fiscal Years, one of the major areas emphasized by the Committee, both in its legislative and oversight capacities, has been crime -- a threat to the domestic security of the Nation and one of the greatest concerns of the American people. In particular, the Committee has focused on the problems of violent and organized crime, and the closely related problem of narcotics trafficking. In this connection, the Committee has closely scrutinized, and subsequently supported, with some enhancements, the dual efforts of the Administration to cut unnecessary Federal government spending, while strengthening vital Federal law enforcement activities. The fruits of these aggressive and efficient efforts are becoming increasingly visible. The violent crime rate has dropped in two successive years and recent indictments have been filed against reputed organized crime figures in New York.

To buttress these endeavors, in the 98th Congress, the Committee vigorously, and successfully, pursued, on a bipartisan basis, enactment of the most fundamental revision of Federal criminal law in recent decades. The Comprehensive Crime Control Act of 1984, Title II of Public Law 98-473, contains major reforms in Federal bail, sentencing, insanity defense, and asset forfeiture provisions; enhances drug penalties; reauthorizes Federal law enforcement assistance to the states and localities (including new victims compensation and missing children programs); and makes a myriad of miscellaneous improvements. The Act also includes various revenue-raising features stemming from improved drug asset forfeiture and fine collection procedures, across-the-board increases in Federal criminal fines, penalty assessments, and "Son-of-Sam" forfeitures.

In the judgment of the Committee, the Federal law enforcement arsenal in the war against violent and organized crime, drug trafficking, and terrorism must contain both financial and statutory weapons. To that end, the recommendations of the Committee for Fiscal Year 1986 do not contain substantial decreases from levels proposed by the Administration, and support increases requested by the Administration to ensure effective implementation of the Comprehensive Crime Control Act. The already lean budget for Federal law enforcement agencies is clearly modest when compared with many other Federal programs. Moreover, unlike some of those, it finances a universally accepted role of the Federal government -- providing for the domestic defense of this nation.

The Committee has acted, and will continue careful oversight, in several other areas involving expenditures. Public Law 98-353, enacted on March 22, 1984, restructured the Federal bankruptcy system, made improvements in various substantive bankruptcy provisions, and authorized the appointment of 85 urgently needed additional Federal judges. Various issues generated by "high-tech" advancements will be considered. The new Sentencing Commission and State Justice Institute were authorized in the 98th Congress to operate in Fiscal Year 1986. Finally, the Committee continues to be optimistic that immigration reform legislation will be enacted in the 99th Congress.

Recommended Changes

NOTE: Unless otherwise noted, as in last year's report, in addition to Fiscal Year 1986 program changes, changes from the CBO baseline may reflect Fiscal Year 1985 supplementals, and certain decreases and uncontrollable increases estimated by the Administration, which may not have been fully accounted for in the CBO's assumptions. Programs listed are those involving significant programmatic changes only. With respect to other programs within the Committee's jurisdiction, such as the Foreign Claims Settlement Commission, the Committee assumes that the Budget Committee is aware of the decreases and uncontrollable increases estimated by the Administration, FY 1985 supplementals, and minor program changes.

Program A (Commerce Department - Patent and Trademark Office). The Administration request includes a $1.4 million reduction in almost all administrative activities, an offset of prior year patent and service user fees, and increases for automation initiatives in the patent process, trademark process and information dissemination functions.

Program B (Justice Department - General Administration). The Administration's request includes annualization of 1985 supplemental increases to implement financial management systems support for the Crime Victims and Assets Forfeiture Funds. As in recent Fiscal Years, the Committee recommends restoring the funds cut by the Administration for information sharing under the state and local drug grants ($9.9 million).

Program C (Justice Department - Federal Bureau of Investigation). The Administration's figure reflects a $35 million increase in high priority field investigative programs, a $10 million increase for construction of a dormitory/classroom facility at the FBI Academy, and a $5 million increase to meet additional investigative responsibilities under the Comprehensive Crime Control Act.

Program D (Justice Department - Organized Crime Drug Enforcement). The Administration's request reflects a decrease occasioned by the expiration of the President's Commission on Organized Crime, which was intended to have a limited life.

Program E (Justice Department - Drug Enforcement Administration). The Administration's request includes a $7.7 million annualization of an FY 1985 supplemental request generated by the Comprehensive Crime Control Act, which expanded DEA authority in the area of diversion of controlled substances.

Program F (Justice Department - Immigration and Naturalization Service). The Administration's figure includes a $5 million program decrease offsetting reimbursement from air carriers for inspectional overtime at certain airports. Staff from the Subcommittee on Immigration and Refugee Policy advises that the Subcommittee is considering restoring that decrease to enhance inspection activities.

Prospects for enactment of immigration reform legislation are uncertain. In the event that the 99th Congress enacts legislation similar to that passed by the Senate in the 98th and 97th Congresses, the Subcommittee estimates that it will have significant budgetary impact on the INS, as noted in the Committee's March 15, 1984 letter.

Program G (Justice Department - General Administration-Working Capital Fund). The request reflects an FY 1985 rescission proposal relating to the Justice Telecommunications Network.

Program H (Treasury Department - Bureau of Alcohol, Tobacco and Firearms. The Administration request includes a $2.3 million reduction in the law enforcement tobacco program and a $1.1 million reduction stemming from the repeal of the requirement for strip stamps on distilled spirits.

Program I (Treasury Department - Secret Service). The Administration request reflects decreases relating to non-recurring costs associated with the protection of Presidential candidates.

Program J (Justice Department - General Legal Activities). The request reflects annualization of an FY 1985 supplemental for additional litigative requirements in the Criminal Division generated by the Comprehensive Crime Control Act ($1.5 million).

Program L (Justice Department - U.S. Attorneys and Marshals). The Administration has requested program increases of $20.2 million reflecting passage of the Comprehensive Crime Control Act and $8.5 million for support for new Federal judgeships created by P.L. 98-353.

As in several past Fiscal Years, the Committee recommendation does not embrace the Administration proposal to discontinue the U.S. Trustee program and thus includes $9.4 million for its operations at current levels. The Congress took specific action to continue that program through Fiscal Year 1986 in P.L. 98-353, and will be evaluating reauthorization and possible expansion of the program during the 99th Congress.

Program M (Justice Department - Support of U.S. Prisoners). The Administration request includes a program increase of $5 million for the Cooperative Agreement Program (CAP).

Program N (Justice Department - Federal Prison System, Buildings and Facilities). The Administration figure of $46 million is designated entirely for modernization and repair of existing facilities. In a letter to Chairman Thurmond, Senator Specter made the following recommendations in this area:

> "The Administration proposes to reduce funding for federal prison buildings and facilities by almost half, from an FY 1985 level of $86.043 million to a FY 1986 level of $46.063 million. No new construction is proposed for FY 1986, compared with a level of $33.05 million in FY 1985. The number of new beds added per year would drop sharply, from 2,460 in FY 1985, to 1,278 in FY 1986, to 311 in FY 1987, to 0 in FY 1988.
>
> "GAO has projected that this level of activity will result in a federal prison overcrowding rate of 40 percent by 1990 -- approximately twice the present rate -- and that the present rate of increase in federal prison population will continue. Based on such projections, the Senate last year approved an appropriation of over $97 million for federal prison buildings and facilities. Since the crisis continues to worsen -- and with it, the threat to the public safety presented by massive premature releases -- the Committee should recommend funding at a level not lower than that approved by the Senate last year. This requires an increase of not less than $51 million over the level proposed by the Administration."

Program O (Justice Department - Federal Prison System, Salaries and Expenses). The Administration request includes $1.1 million to annualize an FY 1985 supplemental generated by expectations that enactment of the Comprehensive Crime Control Act would result in an increase in average daily prisoner population; $17.3 million to activate the Oakdale, Louisiana Alien Detention Center and new housing units; and $2 million for outside medical care.

Program P (Justice Department - Office of Justice Programs). The Administration request includes $61.2 million for state and local assistance reauthorized under the Justice Assistance Act of 1984; an increase of $3.2 million for public safety officers death benefits; and $3.3 million to annualize the FY 1985 supplemental supporting operation of the Crime Victims' Fund and the Emergency Federal Law Enforcement Assistance program. As in previous Fiscal Years, the Committee recommendation includes $67.6 million for the Office of Juvenile Justice and Delinquency Prevention, proposed to be discontinued by the Administration. This program was reauthorized last October by the Juvenile Justice, Runaway Youth and Missing Children's Act Amendments of 1984. In a letter to Chairman Thurmond, Senator Specter, in addition to expressing strong opposition to the proposed OJJDP cuts, made the following comments on the Administration's proposal relating to FY 1984 funding:

> "The Administration proposes to reprogram, primarily to the Marshals Service, approximately $13 million in unobligated funds previously appropriated for special emphasis grants by the Office of Juvenile Justice and Delinquency Prevention in FY 1984. The Juvenile Justice Act

> requires, however, that unobligated funds be allocated to the states under the formula grant program. Congressional intent was further indicated in last year's amendments to the Act, which sharply limit the Administrator's discretion to permit special emphasis funds to lapse (see section 224(a) as amended). This reprogramming would violate those limitations.
>
> "Accordingly, the reprogramming request should be denied, and the $13 million should be promptly allocated to the states. These funds should be specifically designated as FY 1984 funds, in order to avoid interference with the special emphasis grant percentage requirements specified in section 224(a) with respect to funding for any subsequent fiscal year."

Program Q (Justice Department - Assets Forfeiture Fund). The Administration figure limits appropriations from the Fund to $20 million. This limit may preclude law enforcement agencies from pursuing forfeiture of assets as actively as originally intended by Congress. The Committee will look into this matter in the oversight process.

ADDENDUM: Legislation enacted in the 98th Congress will result in new expenditures for the judiciary, in addition to those generated by the new judgeships created by P.L. 98-353. The Sentencing Reform Act of 1984, Chapter II of the Comprehensive Crime Control Act, creates a United States Sentencing Commission within the judicial branch, charged with establishing sentencing guidelines for the Federal courts. The estimated cost of that Commission in Fiscal Year 1986 is $4.13 million. An FY 1985 supplemental is also anticipated.

P.L. 98-620 created a State Justice Institute, authorized at $13 million for FY 1986, $15 million for FY 1987, and $15 million for FY 1988.

COMMITTEE ON THE JUDICIARY
REPORT ON SPENDING REQUIREMENTS
($ Millions in Budget Authority)

	Fiscal Year 1986	Fiscal Year 1987	Fiscal Year 1988
Baseline Level	6,014	6,134	6,265
Recommended Changes:			
Program A (Department of Commerce - Patent and Trademark Office)	—	+28	+28
Program B (Department of Justice - General Administration)	—	- 1	- 1
Program C (Department of Justice - Federal Bureau of Investigation)	- 6	+15	- 2
Program D (Department of Justice - Organized Crime Drug Enforcement)	- 2	- 2	- 2
Program E (Department of Justice - Drug Enforcement Administration)	+ 3	+ 3	+ 2
Program F (Department of Justice - Immigration and Naturalization Service)	-20	-20	-20
Program G (Department of Justice - General Administration-Working Capital Fund)	—	—	—
Program H (Department of Treasury - Bureau of Alcohol, Tobacco & Firearms)	- 6	- 4	- 5
Program I (Department of Treasury - U.S. Secret Service)	-14	-13	- 1

	Fiscal Year 1986	Fiscal Year 1987	Fiscal Year 1988
Program J (Department of Justice - General Legal Activities)	- 1	—	—
Program K (Department of Justice - Antitrust Division)	—	- 1	- 3
Program L (Department of Justice - U.S. Attorneys & Marshals)	+41	+40	+40
Program M (Department of Justice - Support of U.S. Prisoners)	- 7	-11	-10
Program N (Department of Justice - Federal Prison System-Building & Facilities)	-42	+ 9	-83
Program O (Department of Justice - Federal Prison System-Salaries & Expenses)	+24	+32	+36
Program P (Department of Justice - Justice Assistance)	+56	+52	+48
Program Q (Department of Justice - Assets Forfeiture Fund)	+20	+20	+20
TOTALS	6,060	6,281	6,312

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United States Senate
COMMITTEE ON LABOR AND
HUMAN RESOURCES
WASHINGTON, D.C. 20510

February 27, 1985

Honorable Pete V. Domenici
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Pete:

As Chairman of the Labor and Human Resources Committee, I am responding to your letter of February 22, 1985 requesting estimates on deficit reductions achievable in fiscal 1986 in programs under the Committee's jurisdiction. I am pleased to join you in this effort to reduce our massive deficits and am gratified to see the growing recognition that the solution to the deficit problem is to cut excessive federal spending and not to raise taxes.

I would like to join in some nominal across-the-board spending freeze on domestic programs in fiscal 1986. This is a realistic estimate of what savings can be obtained from the Labor and Human Resources Committee.

Recent spending history supports this estimate of what can reasonably be expected of the Labor Committee. First, most of the really out-of-control programs under its jurisdiction, such as CETA, were eliminated or, like the health block grants, controlled in the 1981 reconciliation. Let me remind you also that in the 1981 reconciliation, this Committee cut one-fourth of its budget and provided one-fourth of the total reconciliation savings.

Second, only a very small portion--approximately $6 billion out of $413 billion total in FY85--of the direct-spending entitlement programs are under Labor Committee jurisdiction. The major programs and their FY85 amounts are:

Program	BA FY85
Guaranteed Student Loans	$3,077,977,000
Unemployment Trust Fund	314,076,000
Federal Employees' Compensation Act	207,000,000
Longshoremen & D.C. Workers' Comp.	4,400,000
Rail Industry Pension Fund	3,740,600,000
Black Lung Disability Trust Fund	942,537,000
Special Benefits for Disabled Coal Miners	1,024,131,000
Retirement Pay & Medical Benefits for Commissioned Officers	72,121,000
TOTAL	5,779,389,000

Finally, this Committee is not the source of the budget problem. From fiscal 1981 through fiscal 1985, the growth for programs under its jurisdiction was negative, down $1 billion. This includes both the authorized and direct-spending accounts.

Please let me know if I can be of any further assistance in devising a budget plan, which will confront our serious deficit problem, for consideration by the Senate.

Sincerely,

Orrin G. Hatch
Chairman

OGH:dh

ORRIN G. HATCH, UTAH, CHAIRMAN

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United States Senate
COMMITTEE ON LABOR AND
HUMAN RESOURCES
WASHINGTON, D.C. 20510

February 28, 1985

The Honorable Pete V. Domenici, Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

We wish to advise you of our recommendations for 1986 Budget levels for the programs under the jurisdiction of the Subcommittee on the Handicapped. The attached chart outlines our proposal. It is our belief that these programs are critical to our nation's handicapped citizens and represent a cost-effective investment which will benefit both handicapped children and adults and our nation as a whole.

We urge your Committee to carefully consider our recommendations and to include them in the First Concurrent Budget Resolution for 1986.

Thank you.

Sincerely,

Lowell Weicker, Jr.
Chairman
Subcommittee on the Handicapped

Edward M. Kennedy
Edward M. Kennedy
Ranking Minority Member
Committee on Labor and Human Resources

SUBCOMMITTEE ON THE HANDICAPPED

1986 BUDGET RECOMMENDATIONS

	'86 RECOMMENDATIONS*
SPECIAL EDUCATION	$1401.56
VOCATIONAL REHABILITATION	1351.70
DEVELOPMENTAL DISABILITIES	80.4
SPECIAL INSTITUTIONS & RELATED AGENCIES:	
GALLAUDET	61.64
N T I D	32.97
AMERICAN PRINTING HOUSE	5.78
HELEN KELLER	4.3
NATIONAL COUNCIL ON THE HANDICAPPED	.80
JAVITS-WAGNER-O'DAY	.75
TOTAL	$2939.9

* THESE FIGURES ARE BASED ON '86 AUTHORIZATION LEVELS AND 5% COLA INCREASES WHERE THE AUTHORIZATION LEVEL IS "SUCH SUMS".

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United States Senate
COMMITTEE ON
RULES AND ADMINISTRATION
WASHINGTON, D.C. 20510

February 28, 1985

The Honorable Pete V. Domenici, Chairman, and
The Honorable Lawton Chiles, Ranking Minority Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Pete and Lawton:

This letter is in response to your letter of February 22, 1985, (received in the Rules Committee office February 27) requesting that our views and estimates on the budget for fiscal year 1986 be submitted to the Budget Committee March 1.

At this time we do not expect the Rules Committee to consider any new major spending programs, and it appears that the amounts set forth in the budget submitted by President Reagan will be sufficient for the operation of the Legislative Branch and the other agencies within the jurisdiction of this Committee. If we can reduce them, we shall.

The deficits projected for fiscal year 1986 and beyond are a serious threat to our economic security. We applaud your willingness to confront this problem, and we hope that you will be able to keep attention and effort focused on meaningful solutions. You will have our full cooperation.

Sincerely,

Wendell
Wendell H. Ford
Ranking Minority Member

Mac
Charles McC. Mathias, Jr.
Chairman

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R. MICHAEL HAYNES, CHIEF COUNSEL
ALAN L. CHVOTKIN, MINORITY CHIEF COUNSEL

United States Senate
COMMITTEE ON SMALL BUSINESS
WASHINGTON, D.C. 20510

February 27, 1985

The Honorable Pete V. Domenici
Chairman
Committee on the Budget
Washington, D.C. 20510

The Honorable Lawton Chiles
Ranking Minority Member
Committee on the Budget
Washington, D.C. 20510

Dear Pete and Lawton:

We are glad to respond to your letter dated February 22 concerning anticipated spending reductions for programs within the jurisdiction of the Small Business Committee. We want to assure you that our Committee is prepared to scrutinize every program in the Small Business Administration and to make the necessary program changes in order to meet our responsibility toward deficit reduction. At the same time, however, we want to emphasize in the strongest possible terms our belief that the Administration's suggestion that SBA be abolished is short-sighted, irresponsible and unacceptable. We have joined in preparing and introducing S. 408, a new three-year authorization bill for SBA, and we are convinced that our bill, not the OMB plan to scrap the agency at any cost, represents a prudent course which will continue to encourage economic development and job creation which provides the best hope for reducing the federal deficit.

We are currently in the process of conducting hearings on S. 408 which have been extremely valuable in furthering our understanding of both the importance of small business to our economy, and also the importance of the Small Business Administration to small businesses. We hope to share with you and your Committee some of the insights these hearings have given us thus far, as well as our assessment of the budgetary impact of our authorization bill and the serious faults we have discovered in the proposal from OMB. Our Committee is scheduled to hear the testimony of Budget Director Stockman on Thursday, February 28, and we are planning a final day of hearings on March 7, 1985. We will keep you apprised of our findings.

By way of overview, according to CBO, S. 408 will save $661.3 million in budget authority and $725.7 million in outlays over the next three years through the following program changes: 1) Elimination of the bulk of the SBA direct lending program, 2) Elimination of the non-physical disaster program, 3) a freeze on salaries and expenses and the program levels for all lending and management assistance programs. These savings, as compared with the CBO baseline, are summarized as follows:

CBO Estimate of Savings
(in millions)

(from CBO's Current Service analysis)

	1986	1987	1988	Total
B.A.	223	197.3	241	661.3
O.	199.8	281.8	244.1	725.7

Attached as Appendices I and II are CBO's estimate of savings from the program changes proposed in S. 408.

This legislation, cosponsored by a majority of the Committee Members, reflects our continuing commitment to find cost savings wherever possible. In 1981, the Small Business Committee, as part of the reconciliation bill eliminated and revised various SBA programs, resulting in an overall budget reduction of 27 percent. Unfortunately, some of these savings were lost last year with passage of the Omnibus Budget Reconciliation Act of 1983, H.R. 4169 (now P.L. 98-270), which was advocated by OMB and which put farmers back into the SBA disaster loan program.

Furthermore, OMB's projection of "savings" from the elimination of the SBA is seriously misleading. For example, OMB would achieve about 34% of its savings by selling off SBA's loan portfolio at a projected 19 cents on the dollar. Thus, a loan portfolio valued at $12 billion dollars would be sold for $2.3 billion. Based on the agency's historical pattern of collections, SBA should be able to oollect at least 80 cents on the dollar for a total $9.6 billion. Thus, by accepting OMB's "solution" to the deficit, the government in fact loses over $7 billion, a figure substantially greater than the entire projected savings from eliminating the Agency. Moreover, the Committee staff has performed present value calculations on OMB projections, and the result is still a loss of over $5 billion to the taxpayers through OMB's plan. (See Appendix 3, Attached.)

The Administration's proposal also ignores the fact that the SBA has compiled an impressive record of providing critical assistance to large numbers of small business owners and operators.

- The 7(a) Guarantee Lending Program has resulted in 500,000 small business loans, a majority of them long-term, totalling $36 billion. The General Accounting Office, in a 1983 survey of 8900 banks which had participated in the 7(a) program, found that 82% of these loans would not have been made, or would have been made only under more stringent terms, without the SBA guarantee.

- SBA, through its Small Business Investment Company (SBIC) and Minority Enterprise Small Business Investment Company (MESBIC) venture capital programs, has provided $2 billion in equity capital to 70,000 small businesses, creating 250,000 jobs.

- SBA, through its 503 Development Company Loan Program, provided $703 million in economic development loans, generating 100,000 jobs.

- Management assistance programs including Small Business Development Centers, the Service Corps of Retired Executives (SCORE), the Active Corps of Executives (ACE), and Small Business Institutes, have counseled and trained more than 3 million entrepreneurs, teaching them essential management skills, without which many businesses would fail.

- The Surety Bond Guarantee Program, enabling small contractors to obtain the surety bonding required to bid on almost all federal, federally-funded, and private construction contracts, has guaranteed 166,000 surety bonds permitting the award of $12.9 billion in contracts to small business contractors.

- The Pollution Control Bond Program has provided small firms with an important source of capital for nonproductive pollution control devices which are necessary to comply with COngressionally-mandated environmental standards.

- Procurement programs have helped to direct $118.4 billion in federal contracts to small enterprises, $52.3 billion having been achieved through small business "set-asides", and $75.2 billion in subcontracts since 1980.

- SBA's 8(a) program brings minority contractors into the economic mainstream through participation in the federal procurement process. During FY 81 through FY 84, 19,115 Section 8(a) contracts were awarded totalling slightly less than $10 billion.

In addition to receiving assistance through the SBA programs, small enterprises have been effectively represented by the SBA Administrator and the Office of the Advocacy through many other activities, including the establishment of a small business economic data base, establishment of a toll-free phone line to answer small business questions, sponsorship of state and local legislative conferences and planned participation in the White House Conference on Small Business.

The Committee has engaged in a strong course of oversight of the agency and its programs, which will ensure that the agency continues to fulfill its mandate and serve those it is intended to serve. Some comments on each of the Agency's major programs are in order.

Business Loan And Investment Fund (BLIF)

The financial assistance programs of the Agency are funded through the Business Loan and Investment Fund. General business loans, loans to certain targeted groups, and investment company and certified development company loan programs, have all been included in this revolving fund.

Our authorization bill, S. 408, makes major reductions in current program levels by the elimination of a great portion of the direct loan program. The current policy level for BLIF in fiscal year 85, assumes a $257 million direct loan program and a $3.445 billion guaranteed lending program.

Through S. 408, we propose elimination of all direct lending with the exception of modest programs for the handicapped, veterans and minority enterprise small business investment companies. This will reduce the direct loan program from $257 million to $86 million - a savings of $171 million in 1986 alone. We have recommended this reduction because the actual loss rate for direct lending, as compared with guaranteed lending, was unacceptionally high. Additionally, the Committee recommends freezing all guaranteed lending programs for fiscal year 1986 at fiscal year 1985 levels, resulting in additional savings.

The following chart provides a detailed breakdown, by program, of SBA program levels in fiscal year 1985, and the program levels recommended in S. 408.

BUSINESS LOAN AND INVESTMENT FUND
SMALL BUSINESS ADMINISTRATION

Program Levels
($'s in Millions)

	FY 1985 Appropriated	S. 408 Recommended Program Levels 1986	1987	1988
General Business Loans	$2,758.0	$2,650.0	$2,766.0	$2,882.0
Direct & IP	108.0	0.0	0.0	0.0
Guaranteed	2,650.0	2,650.0	2,766.0	2,882.0
Handicapped Loans	29.0	25.0	26.0	27.0
Direct & IP	24.0	20.0	21.0	22.0
Guaranteed	5.0	5.0	5.0	5.0
Economic Opportunity Loans	105.0	60.0	63.0	65.0
Direct & IP	45.0	0.0	0.0	0.0
Guaranteed	60.0	60.0	63.0	65.0
Energy Loans	18.0	15.0	16.0	16.0
Direct & IP	3.0	0.0	0.0	0.0
Guaranteed	15.0	15.0	16.0	16.0
Development Company Loans	455.0	450.0	470.0	489.0
Direct & IP	5.0	0.0	0.0	0.0
Guaranteed	450.0	450.0	470.0	489.0
Investment Company Loans	312.0	291.0	304.0	317.0
Direct & IP	47.0	41.0	43.0	45.0
Guaranteed	265.0	250.0	261.0	272.0
Veterans Loans	25.0	25.0	26.0	27.0
Direct & IP	25.0	25.0	26.0	27.0
Guaranteed	0.0	0.0	0.0	0.0
Total Business Loans	3,702.0	3,516.0	3,670.0	3,824.0
Direct & IP	257.0	86.0	90.0	94.0
Guaranteed	3,445.0	3,430.0	3,580.0	3,730.0

7(a) Guaranteed Lending Program

The guaranteed lending program under 7(a) of the Small Business Act has been the largest SBA lending programs.. According to the 1983 study of the 7(a) program by the General Accounting Office, this program assists a significant segment of small businesses, meeting small businesses' long-term capital needs. The SBA guarantee does this by providing longer term loans than banks normally provide to small business, and also by allowing banks to make larger loans because the government guaranteed portion of the loan is not counted against the bank's legal lending limit. The GAO estimated that "approximately 30 to 40 percent of the dollar amount of banks long-term financing (6 years or more) may carry an SBA guarantee." It concluded that:

> "... the 7(a) program has several important advantages. It allows them to make long-term loans to small businesses that would not be made without the guarantee. Lenders also commented that the guarantee enables them to finance new business ventures that lack a track record and to make larger loans than their lending limits permits. Additionally, the program extends credit at interest rates comparable to rates paid by other small business borrowers even through most loans have longer maturities and a higher degree of risk. Lastly, it helps expand available credit to small businesses and others by letting lenders sell the loans to investors.

GAO further found that:

> "Lenders do not perceive the program as causing increased interest rates or excluding other small business borrowers from their local credit market. Also, the impact of the 7(a) loan program is significant in terms of satisfying businesses' long-term capital needs."

The President recognized the significance of this program last year when he signed into law P.L. 98-352, which opened up new sources of capital for small businesses through an improved secondary market for SBA guaranteed loans. This law allows SBA, for the first time, to pool the guaranteed portion of the loans for sale in aggregate lots to larger, institutional investors who normally do not invest in the small business sector.

Section 503 Certified Development Company Loan Program

The Small Business Administration's section 503 Certified Development Company Program is one of the Federal Government's primary economic development programs. It provides "brick and mortar" financing to healthy small businesses seeking to expand and create jobs.

Section 503 authorizes the SBA to guarantee debentures issued by Certified Development Companies (CDC's) to finance the acquisition of land, plant, and equipment for small business expansion. A commitment for a substantial number of new jobs resulting from the expansion is required before any such loan can be made. SBA guarantees up to 40 percent of the project costs; 10 percent comes from the small business itself; and the remaining 50 percent comes from a private sector, third party lender, such as a bank. Maturities on these loans can be for up to 25 years.

Since the program's inception in 1980, over $700 million in economic development loans were made generating approximately 100,000 jobs. The vast majority of the jobs created have been permanent jobs in the manufacturing and whole-retail industries. In every quarter since the creation of the 503 program, more jobs have been created and the Federal commitment per job had declined. Thus, the section 503 program is a classic example of a Federal jobs program that works, and works well. In fact, the actual loss rate for "503" loans is 1.78%.

In order to achieve additional savings, however, the section 503 program level for fiscal year 1986 is frozen at the fiscal year 1985 level of $450 million. This action is consistent with the Committee's action and recommendations concerning all of the guaranteed loan programs.

Small Business Investment Company Programs

The Small Business Investment Act of 1958, which first authorized the Small Business Investment Company (SBIC) Program, recognized that "Commercial banks function primarily in short and intermediate-term lending; they do not supply venture capital or long-term credit." This funding void still exists today, and SBA's venture capital programs are filling the critical credit gap.

SBIC's and Minority Enterprise Small Business Investment Companies (MESBICs) are SBA licensed companies which, through a private and public sector partnership, provide equity capital, long-term loans, and management assistance to small businesses. SBIC's and MESBIC's are responsible for many of our nation's great small business success stories, including Apple Computer, Federal Express, Cray Research, Inc., Digital Switch, and NBI, Inc.

In return for a commitment to invest in small businesses, SBIC's are licensed by SBA and authorized to issue loans backed by federal guarantees. To be licensed as an SBIC or MESBIC, a company must have at least $1,000,000 in private sector, paid-in capital. Before an SBIC or MESBIC can leverage any funds, it must have first committed at least 60 percent of its own capital to investments in small business concerns.

Since their inception, SBIC's and MESBIC's have provided $2 billion in equity capital to approximately 70,000 firms, creating 250,000 jobs. The assisted companies have produced jobs, economic gains, and tax revenues far exceeding the government's outlays.

Disaster Loan Revolving Fund

As part of the Omnibus Reconciliation Act of 1981, P.L. 97-35, reforms in the SBA disaster lending program included the elimination of farmers from SBA's disaster loan program and most of the non-physical disaster loan programs. It further provided that no funds were authorized to be appropriated for the one program not terminated dealing with injury resulting from Federal Government action.

Last year, however, this action was overturned when, in order to achieve some quick savings in other areas, Congress passed and the President signed P.L. 98-270, which brought farmers back into SBA's disaster program and authorized $100 million in funding for the non-physical disaster program. In addition, P.L. 98-270 created two new disaster loan programs which were made eligible for funding under the non-physical disaster loan program. One program permitted assistance to businesses harmed as a result of the government's Payment-in-Kind (PIK) program. The other permitted assistance to businesses injured as a result of the Mexican government's devaluation of the Peso. Our bill recommends the elimination of these programs, which will result in further savings to the government of $203 million over the three year period of the bill.

The Chairman of the Committee feels strongly that SBA should have no involvement in farm disaster lending whatsoever and that farm disaster credit needs should be addressed by the Farmers Home Administration. The issue is controversial, however, and the bill leaves present law unchanged, while the Chairman reserves the right to offer an amendment, either in mark-up or on the floor, to restore the provisions of the 1981 Reconciliation Act in respect to farm disaster lending.

Surety Bond Guarantee Program

Under its Surety Bond Guarantee (SBG) Program, small businesses are able to obtain the surety bonding required to bid on almost all federal, federally-funded, and private construction contracts. Small firms with limited track records and limited resources find it difficult to obtain bonds from commercial bonding companies at reasonable costs. Since the inception of the SBG Program in 1971, 166,132 surety bonds have been guaranteed permitting the award of $12.0 billion in contracts to small businesses.

After deducting program costs, including losses, SBA can identify approximately $504 million in direct savings to the Treasury as a result of this program, based on the difference between the bid price of small business participant and the next low bidder. Moreover this program has helped thousands of small construction contractors to enter the federal, state, or local markets.

The Committee has recommended a program level of $1.1 billion, the same as fiscal year 1985. This recommendation results in a cost of only $12 million in budget authority to cover losses.

Pollution Control Equipment Contract Guarantee Program

By amendments in 1976 to the Small Business Investment Act of 1958, Congress authorized the Small Business Administration to guarantee 100 percent of the payments due from eligible small businesses under qualified contracts for the planning, design, financing or installation of pollution control facilities or equipment which have been mandated by governmental pollution control regulations. Financing of such contracts may be obtained from the proceeds of tax-exempt bonds issued by state or municipal authorities.

Small business owners, bankers, underwriters, and state pollution control financing agencies have overwhelmingly attested to the importance of small businesses' continued access to this small but crucial source of guarantee authority.

Accordingly, we recommend a program level of $150 million, identical to fiscal year 1985. CBO estimates that there will be no additional budget authority required in order to maintain this program.

Salaries and Expenses

Under salaries and expenses, all of the Agency's non-lending authorities are funded. Although increased responsibility and activity, particularly in the area of management assistance, portfolio management and procurement assistance, have placed greater demands on the Agency, the Committee has recommend that this account also be frozen at the fiscal year 1985 level of $210 million. This will result in an additional $33 million in savings for 1986 based on a CBO current services baseline.

With kindest regards,

Sincerely,

Dale Bumpers

Dale Bumpers
Ranking Minority Member

Lowell Weicker, Jr.
Chairman

	1986		1987		1988		1989		1990	
	BA	OUTLAY	BA	OUTLAY	BA	OUTLAY	BA	OUTLAY	BA	OUTLAY
MDM 06-Feb-85										
CBO REESTIMATED BASELINE FEB 1985										
S & E	243	298.7	247.6	322.2	252.8	331	258.8	340	265.1	349.3
WHITE H CONF	2	2.6	0	0.2	0	0	0	0	0	0
POLL	0	4	0	4	0	3	0	2	0	2
BLIF	523	510	531	526	541	531	540	531	568	559
SURETY	12	14	16	15	15	16	16	17	18	19
LEASE	0	1	0	1	0	1	0	0	0	0
	----	----	----	----	----	----	----	----	----	----
TOTAL	780	830.3	794.6	868.4	808.8	882	814.8	890	851.1	929.3
SENATE SMALL BUSINESS PROPOSAL										
S & E	210	274.9	213.8	289.9	218.3	293.4	223.2	301.8	228.6	310.3
WHITE H CONF	2	2.6	0	0.2	0	0	0	0	0	0
POLL	0	4	0	4	0	3	0	2	0	2
BLIF	333	393	368	359	387	387	388	389	418	419
SURETY	12	14	15.5	14.5	14.5	15.5	15.5	16.5	17.5	18.5
LEASE	0	1	0	1	0	1	0	0	0	0
	----	----	----	----	----	----	----	----	----	----
TOTAL	557	689.5	597.3	668.6	619.8	699.9	626.7	709.3	664.1	749.8
************										
DIFFERENCES										
************										
SENATE SMALL BUSINESS PROPOSAL - BASELINE										
S & E	-33	-23.8	-33.8	-32.3	-34.5	-37.6	-35.6	-38.2	-36.5	-39
WHITE H CONF	0	0	0	0	0	0	0	0	0	0
POLL	0	0	0	0	0	0	0	0	0	0
BLIF	-190	-117	-163	-167	-154	-144	-152	-142	-150	-140
SURETY	0	0	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
LEASE	0	0	0	0	0	0	0	0	0	0
	----	----	----	----	----	----	----	----	----	----
TOTAL	-223	-140.8	-197.3	-199.8	-189	-182.1	-188.1	-180.7	-187	-179.5

APPENDIX II

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Rudolph G. Pe
Director

February 1, 1985

MEMORANDUM

TO: Bob Dotchin
Committee on Small Business

FROM: Paul DiNardo
Congressional Budget Office

SUBJECT: Savings from eliminating SBA non-physical disaster loans

Currently, SBA non-physical disaster loan obligations may not exceed $100 million in any fiscal year. This cap is in effect through fiscal year 1987. The current CBO baseline assumes that this cap is reached in each year that it is in effect. After fiscal year 1987, annual non-physical disaster loan obligations are inflated.

Below are the estimated savings relative to the current CBO baseline from eliminating non-physical disaster loans after fiscal year 1985:

SAVINGS RELATIVE TO CBO BASELINE FROM ELIMINATING NON-PHYSICAL DISASTER LOANS AFTER FISCAL YEAR 1985
(By fiscal year, in millions of dollars)

	1985	1986	1987	1988	1989	1990
Budget Authority	---	---	---	52	306	75
Outlays	---	59	82	62	54	53

The savings above result from reduced direct loan obligations. Starting in fiscal year 1987, they are progressively offset by reduced principal and interest payments relative to the baseline. The large budget authority savings estimated in fiscal year 1989 are attributable to the reduced need to draw upon unobligated balances of the fund in earlier years.

Please call if you have any questions.

OMB Sale of SBA Loan Portfolio

Present Value Calculations

Year	Expected Revenue (millions)	Discount Factor****	Present Value (millions)
86	$670	.9066	607.43
87	610	.8295	505.98
88	549	.7731	424.41
89	488	.7314	356.93
	$2317.00		$1894.75

SBA Collection of Loan Portfolio*

Year	Payment Expected*** (millions)	Discount Factor****	Present Value (millions)
85	$1343**		
86	1317	.9066	$1193.99
87	1247	.8295	1034.39
88	1131	.7731	874.38
89	1013	.7314	740.91
90	886	.6933	614.26
91	772	.6571	507.28
92	673	.6229	419.21
93	581	.5904	343.02
94	503	.5596	281.48
95	434	.5304	230.19
96	375	.5028	188.55
97	324	.4766	154.42
98	277	.4517	125.12
99	236	.4282	101.06
00	1190	.4059	483.02
	$12301		$7291.28

Total Present Value of Revenues Under OMB Proposal $1,894.75
Total Present Value of Revenues Under SBA Proposal $7,291.28

Loss to Treasury from OMB proposal $5,396.53

*This includes BLIF, DLF and FFB loans.

** 1985 is not added so that this revenue stream can be compared to OMB sales revenues which are based on portfolio in 1986.

***This expected payment allows for expected losses.

****Discounted at ten-year Treasury note rates assumed by OMB in FY 86 budget.

(Prepared by Small Business Committee,
Minority Staff)

United States Senate
COMMITTEE ON VETERANS' AFFAIRS
WASHINGTON, DC 20510

March 7, 1985

The Honorable Pete V. Domenici
Chairman, Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Pete:

In lieu of the annual submission of the Committee's "Budget Views and Estimates," the Majority Members of the Committee on Veterans' Affairs are submitting their informal views and estimates regarding the Administration's fiscal year 1986 budget request for Function 700. Because of the importance of several major policy changes which are being considered, and due to the accelerated markup schedule of the Committee on the Budget, we are submitting our Majority recommendations even though our budget negotiations with the Minority Members are as yet incomplete. We are rather close to a concensus on many issues but due to our desire to fulfill our oversight responsibilities we are sending a letter at this time.

Having carefully reviewed the Administration's fiscal year 1986 budget request for Function 700, the Majority Members of the Committee on Veterans' Affairs recommend to the Committee on the Budget that, the Congressional budget for fiscal year 1986 include for Function 700, the President's budget request, as reestimated by the Congressional Budget Office (CBO), with the following adjustments:

5% PAY REDUCTION

We oppose the proposed 5 percent pay reduction for Veterans' Administration employees and recommend restoration of $229 million in budget authority and $204 million in outlays for fiscal year 1986.

COLA's

We support the Administration's request for cost-of-living adjustments (COLA's), as reestimated by CBO, for both the Veterans' Administration compensation and pension programs. However, we believe the percentage for the COLA's should be based on CBO's projection of the social security COLA -- 3.7% -- and the budget should be adjusted to take into account any difference between the CBO-projected and actual social security COLA on the effective date. CBO's reestimate of a 3.7 percent compensation COLA would require $336.4 million in budget authority and $280.3 million in outlays for fiscal year 1986.

If the Budget Committee recommends an across-the-board freeze on all entitlement program COLA's, we would not object to the inclusion of veterans' programs in that freeze. However, we oppose strongly any proposal to freeze a COLA for the service-connected disability compensation program if any other COLA's are granted.

5% LOAN ORIGINATION FEE

In view of CBO's estimate that no appropriation will be necessary for the loan guaranty revolving fund for fiscal years 1986-1990, we cannot support at this time the Administration's request for a FY 1986 appropriation of $404.6 million nor can we at this time support an increase in the loan origination fee from the current 1 percent level. We will attempt to identify program problem areas and will consider administrative and legislative changes to remedy the source of the problems which the loan guaranty program is experiencing.

DVB CONSOLIDATION

We oppose the proposed consolidation plan for the Department of Veterans' Benefits as premature because it has not yet been adequately developed and an automated data processing (ADP) system, which we perceive to be essential for an efficient consolidation plan has not been designed. We recommend that the $25.1 million requested by the Administration be redirected to: first, develop an ADP plan needed for an effective and efficient consolidation plan; and secondly, to restore and reallocate these funds to a portion of the FTEE which would have been eliminated by the proposed consolidation, as well as certain other FTEE and activities as follows: ADP development and acquisition, loan guaranty, vocational rehabilitation and research, and new authorizing legislation.

JOB TRAINING

The Emergency Veterans' Job Training Act of 1983 (EVJTA), P.L. 98-77, was designed to address the problem of severe and continuing unemployment among veterans. The program provides, in the form of payments to defray the costs of training, incentives to employers to hire and train certain wartime veterans who have been unemployed for long periods of time.

By limiting the program to certain wartime veterans who had been unemployed 15 out of the 20 weeks immediately preceding application for the program, the Congress targeted limited resources to those most in need. By requiring that employers train veterans in fields experiencing employment growth or jobs with a shortage of labor, we structured the program to train eligible veterans for a career; not just to provide a short-term "make work" job.

The program was designed as an interim "stop-gap" measure. But it had start-up problems. It was late November 1983 before funding was available. Employers were reluctant to participate at first. Veterans applied, but their interests and abilities were hard to match with those of employers. In spite of a slow and difficult start, EVJTA has helped place 30,000 veterans in training. The program has now established momentum and is working. Employers are learning of the program from their peers who have made it work and are expressing an interest in participating.

The need for the program still exists. Almost 300,000 veterans have established their eligibility. Extension of EVJTA would be a finite, realistic expansion of the original intent of this law to complete the task we began in late 1983. This extra time would allow the advantage of experience and success to pave the way for the many qualified veterans of Korea and Vietnam to train for a job with a future under this program. Therefore, in spite of our reluctance to add dollars to the budget in a year when we need to find significant savings, the Committee's Majority Members recommend that any funds remaining at the program's expiration date (September 1, 1985) be transferred to the fiscal year 1986 account, and that veterans be allowed until December 31, 1985 to establish their eligibility and begin a program of training. This will not require a new appropriation. It will allow funds already appropriated to be used for an orderly phasedown of the program. We believe that this money will be paid back many times by veterans who will become employed and will be contributing their tax dollars to our Nation's economic recovery.

MEDICAL CARE

Add approximately $60 million to FY 1986 budget authority for the VA medical care account (Function703) to restore funding for approximately 2000 FTEE which was provided for in the FY 1985 appropriation, but which was not fully utilized by the Department of Medicine & Surgery (DM&S). Of the estimated 2000 FTEE that would be restored to the VA medical care account, we expect that the additional FTEE should be available for allocation to the following programs: 26 FTEE for the activation of the outpatient clinic in Puerto Rico; 172 FTEE for community-resource coordination personnel at VA medical centers; the development or extension of VA and community-based programs for elderly veterans or veterans needing psychiatric care to obviate the need for institution-based care; and 157 FTEE to be used for research.

The Committee on Veterans' Affairs is awaiting a requested response from the Veterans' Administration concerning its methodology for determining and allocating FTEE levels for new activations within the Department of Medicine & Surgery. Until that response is received, we are unable to determine whether additional FTEE for DM&S new activations during FY 1986 is either necessary or justified. Thus, we defer any further recommendation for FTEE for new activations.

In recognition of the need for additional nursing home beds and the cost effectiveness of the State Home Program, the Majority Members recommend that $12.5 million be provided to fund grants for the construction of state extended care facilities.

MEDICAL CONSTRUCTION

The Majority Members cannot at this time make any recommendations regarding the VA's construction programs.

We recognize that many of the aforementioned adjustments to the Administration's budget request for FY 1986 may not result in the large budget savings which we initially hoped to achieve in our recommendation to the Committee on the Budget. The Majority Members of the Committee on Veterans' Affairs will seriously consider various policy changes and legislative initiatives during this session of Congress in order to improve management within the Veterans' Administration and to improve the delivery of veterans' services, while at the same time, striving to achieve maximum budget savings in order not to exceed the level requested by the President for FY 1986. Several of the major policies and issues we will consider in order to meet these goals include:

o Means test for VA medical care eligibility.

If the Administration submits legislation to implement its means test proposal, we will examine very closely the merits of any such legislative proposal. CBO's preliminary reestimate of the Administration's means test proposal projects savings of approximately $400 million in budget authority and outlays for FY 1986, $1 billion in budget authority and outlays for FY 1987, and $1.2 billion in budget authority and outlays for FY 1988. We strongly support the concept of a fair and equitable means test for all non-service connected veterans who seek eligibility for VA medical care, if it can be devised in an administratively manageable manner which will not be unduly burdensome on the veterans concerned.

- Third party reimbursement.

  We support the concept of third party reimbursement from private health insurers for VA medical services rendered to veterans for non-service-connected disabilities. CBO's reestimate of the Administration's proposal for third party reimbursement projects savings of $62 million in budget authority and outlays for FY 1986, $154 million in budget authority and outlays for FY 1987, and $189 million in budget authority and outlays for FY 1988.

- Beneficiary Travel.

  We will examine the recommendations contained in the General Accounting Office's report regarding the VA's beneficiary travel program. At a time of limited resources and increasing demand for health care, we believe that a reassessment of this program's $100 million cost in relationship to its benefits should be undertaken.

- Puerto Rico.

  We anticipate significant FY 1986 and outyear cost savings would be achieved by allowing the extraordinary statutory authority for Puerto Rico to expire and by eliminating non-service-connected fee-basis medical care in Puerto Rico. We support these changes and we recommend that part of the savings generated by these proposals be redirected to supply 26 additional staff to activate a new outpatient clinic. There is a 692 bed hospital, 3 outpatient clinics, a Vet Center, a planned 120 bed nursing home, and a blind-rehabilitation center designed to meet the needs of veterans in the Commonwealth of Puerto Rico.

- Pension eligibility at age 65.

  In light of the Administration's proposal to repeal the age 65 presumption of inability to defray the cost of health care we shall seriously consider the merits of current law which presumes total and permanent disability at age 65 for purposes of pension eligibility. We will consider alternatives, which would apply prospectively, that would eliminate the inequitable assumption that veterans who have reached the age of 65 are totally and permanently disabled.

The Majority Members wish to underscore that these recommendations are made as a result of a careful review of veterans' programs, a budget hearing and extensive efforts to identify areas in which funding should be provided as well as areas to consider for possible cost savings. The object of these recommendations is to fulfill our requirement and continuing commitment to our Nation's veterans and their survivors.

We appreciate your consideration of the views contained in this letter. If we or our staff can be of futher assistance, please let us know.

Sincerely,

Frank H. Murkowski
Chairman

Strom Thurmond

Alan K. Simpson   Strom Thurmond   Robert T. Stafford

Jeremiah Denton

Arlen Specter   Jeremiah Denton   Rudy Boschwitz

United States Senate
COMMITTEE ON VETERANS' AFFAIRS
WASHINGTON, DC 20510

March 6, 1985

Honorable Pete V. Domenici
Chairman
Honorable Lawton Chiles
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Pete and Lawton,

We are writing to provide you with the views of the Democratic membership of the Committee on Veterans' Affairs with respect to the FY 1986 budget for veterans' programs within the jurisdiction of our Committee.

We have very carefully reviewed the Administration's fiscal year 1986 budget for veterans' programs and the testimony of representatives of the Veterans' Administration, the Department of Labor, and veterans' service organizations at our February 20 hearing. In addition, we have given great weight to the urgent need to control federal spending in order to reduce the projected rapidly increasing federal deficits. However, we also strongly believe that deficit-reduction efforts must be undertaken in a manner that is fair to our Nation's veterans and consistent with our obligations to those who have served and made such great sacrifices to keep our Nation free and strong.

We have taken the unusual step of submitting a separate statement of the views of the Democratic membership of the Committee because our very best efforts to reach an accord with the majority membership were, we regret, unavailing.

GOVERNMENT-WIDE CONSIDERATIONS

- Agency-by-Agency Freeze. Before focusing on specific items, we would like to state that, if the Congress commits itself to a government-wide spending freeze -- in the form of FY 1985 appropriations-level (or outlay-level) caps for each department and agency, the Veterans' Administration should be included. However, in light of the high priority that properly attaches to veterans' programs, we believe strongly that these programs must not be singled out for discriminatory cuts in order to make room for increases in other budget areas.

- Administration-Proposed Pay Cut. With respect to the government-wide, 5-percent federal civilian employee pay cut proposed by the President, we wish to note that we strongly oppose any such cut and doubt that the Congress will enact legislation to implement it. However, if such a pay cut is enacted, we do not recommend excluding the Function 700 accounts. In the same way, if, as we propose, no such pay cut is enacted, we strongly recommend the restoration of $228.4 million in the various accounts throughout Function 700 to reflect full salary costs to the VA -- and restoration of corresponding amounts in the Department of Labor (DoL) accounts from which DoL veterans' programs are funded -- in fiscal year 1986. (The enclosed table reflecting our recommended policies also shows the effect of the enactment of such a pay cut on each affected VA account.)

- Compensation and Pension COLA's. If the Congress were to institute an across-the-board freeze on cost-of-living adjustments (COLA's) for all federally-supported entitlement benefits, we would not object to the application of such a freeze to VA compensation and pension COLA's. Otherwise, we strongly support the provision of COLA's to VA compensation and pension recipients in FY 1986.

FUNCTION 700

In the absence of an agency-by-agency freeze and assuming that the proposed federal pay cut will be rejected -- but still seeking an appropriate balance in how we carry out our responsibilities to both the Nation's veterans and its taxpayers -- we are recommending Function 700 totals (for programs within our Committee's jurisdiction) of $27.601 billion in budget authority and $27.193 billion in outlays. (These totals reflect proposed unspecified cost-saving legislation in the maximum amount of $50 million that we are committed to in the event that our other recommendations are substantially achieved in the course of budget and appropriations processes.) Our recommendations are reflected in the enclosed table and include the amounts requested in the President's FY 1985 budget (as reestimated by the Congressional Budget Office), with the following changes (with differences from baseline also noted):

Subfunction 701, Income Security for Veterans

- Compensation. Subtract $33.6 million in BA and $30.2 million in outlays in connection with a service-connected disability compensation and dependency and indemnity compensation (DIC) COLA, effective December 1, 1985, of 3.7 percent rather than 4.1 percent as proposed by the President. Consistent with Committee and Congressional prior practice, we recommend a compensation and DIC COLA at the rate, 3.7 percent, at which CBO estimates social security benefits (and other income-maintenance programs with increases tied to social security COLA's, such as VA non-service-connected pension) will automatically be increased by law in the coming fiscal year. The President's proposal of a 4.1-percent COLA corresponds with the Administration's projection that the December 1985 social security COLA will be 4.1 percent.

(Our recommendation results in no change from baseline.)

Subfunction 702, Veterans' Education, Training, and Rehabilitation

- Add $44,000 in outlays to reflect our position that the Administration's proposal to terminate the VA's authority to make direct education loans to certain veterans should not be enacted.

(Our recommendation results in no change from baseline.)

Subfunction 703, Hospital and Medical Care for Veterans

- Medical Care.

Staffing levels: Add $120 million to the medical care account in order to support in FY 1986 4,160 full-time equivalent employees (FTEE) over the level proposed by the President for VA health-care services. This addition would, first, restore the 2,092 FTEE for which funds were appropriated in the FY 1985 HUD-Independent Agencies Appropriations Act but which are not included in the base for the agency's FY 1986 budget because the VA is not using them; and, second, add the 2,068 FTEE identified in the VA's budget documents as needed to staff new activations in FY 1986.

With reference to the 2,092 FTEE for which funds were appropriated but which the VA is not using in the current fiscal year, it is asserted in the VA's budget documents that the decision not to use these FTEE was the result of internal agency analysis given the absence of these FTEE from the level requested for fiscal year 1986 and the high percentage (59%) of the FY 1985 pay raise costs for medical care account employees that OMB is, to this point, forcing the VA to absorb. If so, this would be the first time in our experience that the VA, on its own initiative, chose to ignore explicit Congressional intent regarding the level of health-care personnel staffing. This would be particularly ironic because, pursuant to a law enacted in 1981, OMB must certify to the Congress that it has provided to the VA all the FTEE and funding to support the FTEE for which Congress has appropriated funds, a requirement with which, according to the Comptroller General of the United States, OMB complied with respect to the FY 1985 appropriations measure. A more likely scenario would seem to be that this reduction is a further example -- this budget includes several others -- of OMB imposing directly or indirectly arbitrary reductions in the numbers of VA health-care staff providing direct health-care services to veteran-patients, in this case despite OMB's certification that the VA was given the authority to hire the full number of FTEE. Such personnel reductions, proposed without regard to the impact on the veterans who receive VA care, threaten to bleed the overall system to the point where its capacity to provide quality health care for eligible veterans would be substantially reduced.

With further reference to this reduction, we note that the Chairman of the House Appropriations Subcommittee on HUD-Independent Agencies, Representative Edward Boland, has already advised the VA that he intends to provide funds, through a supplemental appropriations measure, to restore this 2,092 reduction in the current fiscal year. In view of this action, we anticipate favorable action in the House of Representatives, and we will press for favorable action in the Senate.

Once the 2,092 FTEE are restored to the medical care account this year -- thereby establishing a new FTEE base to carry forward the explicit Congressional intent for fiscal year 1985 -- we also recommend the addition of 2,068 FTEE -- the number which the VA indicated in its budget documents is needed to staff new activations in DM&S during FY 1986. These activations include additions to the basic system, such as start-up of one new nursing home care unit and providing full-year support for eight other nursing home care units which are opening in the current fiscal year, opening two new satellite outpatient clinics, and completing major replacement and modernization efforts at three VA medical centers.

The net impact of these two FTEE additions, totalling 4,160 additional FTEE -- and the $120 million needed to support them -- is to restore the medical care account personnel level intended by Congress for FY 1985, thereby supporting the same program level approved for this fiscal year, and then to augment that level with the personnel positions needed to staff new activations in the coming fiscal year. In essence, the status quo from appropriations action for FY 1985 and prior years -- for FTEE and construction for future activation -- would thereby be maintained.

Flexibility in the allocation of resources: With further reference to the VA's medical care account, we strongly believe that the VA should not be restricted in the use of any of its resources -- either the base level proposed in the budget or the additional resources we are advocating -- for developing or expanding innovative programs to avoid institutionalization and provide more effective care to older veterans. Although not formally reflected in the VA's budget documents, it is our understanding that OMB, during the preparation of this budget, gave the agency guidance to the effect that it should not develop or expand services that are alternatives to institutionalizations -- such as adult-day health care, hospital-based home care, and geriatric evaluation units -- until the VA could demonstrate their cost-effectiveness. Although we agree that the VA must be aware of the cost implications of various programs, we believe that the agency should be free from such arbitrary limitations on its utilization of available resources -- particularly in areas, such as this, in which it needs to acquire experience and knowledge regarding its own capability to provide more cost-effective services. We believe that there is already good reason to conclude that these outpatient approaches are more economical within a universe of fixed resources than institutional care and are in virtually all cases, where used appropriately, more compassionate and humane. In the specific area of programs that are designed to avoid institutionalization of older veterans, either in hospitals or extended-care facilities, we are especially concerned that the VA undertake all appropriate efforts to enhance its utilization of such programs. (For example, section 9 of the pending legislation, S. 6, would direct the VA to establish a pilot program in (at least) five geographic regions to test various such approaches in coordination with community-based efforts, including the provision of medically-related social services such as nutrition and homeworker services.) Only through such efforts will the agency be able to find out how best to use available resources even to begin to meet the needs of the growing population of older veterans.

Administration legislative proposals: With reference to the legislative proposals (neither of which has been submitted to the Congress) mentioned in the VA's budget documents relating to the application of a means test to all non-service-connected veterans, regardless of age, who seek health care from the VA based on their "inability to defray the expenses" of the care sought, we note that neither proposal is shown by the VA budget documents or the President's budget as a cost-savings item for fiscal year 1986. Such a means test would restrict the VA health-care eligibility of non-service-connected veterans with incomes more than twice the VA pension level and eliminate eligibility based on being age 65 and over.

We have received a copy of a preliminary CBO document costing OMB's version of such a means test applicable to veterans, regardless of age, who have no service-connected disabilities. In light of the growth in demand for VA care currently being experienced -- for example, a recent VA study showed that in a representative sample of VA medical centers approximately 17 percent of all applicants for VA care were first-time users of the VA health-care system -- we strongly believe that no fair and appropriate means test to determine which veteans were "unable to defray the expenses" of care could produce net cost-savings in FY 1986. Veterans who would be denied VA care through the application of a means test would almost surely be replaced by an equal number who would satisfy the test requirements or be exempt from them, especially since the OMB proposal that CBO has costed would exempt from the application of any means test, as does existing law, over 1.2 million veterans with zero-rated service-connected disabilities. In addition, we would note that the administrative costs of implementing a means test are, according to VA testimony in prior fiscal years, likely to be substantial and do not appear to have been taken into account in the CBO analysis.

We, therefore, urge that no cost-savings be attributed to these proposals at this point.

With reference to another proposal mentioned in the VA's budget documents but also not yet submitted to the Congress -- legislation which would require reimbursement from private health insurance carriers for VA care provided to non-service-connected veterans, which we do not support -- it is our view that there remain numerous unanswered questions about this proposal. The unknowns include, among others, the implications of such a proposal for increasing the overall cost of health care (by increasing administrative costs for both the VA and the insurers), the extent to which non-service-connected veterans receiving VA care have health insurance that would yield payments under such a law, the ability of the VA to generate billings which accord with requirements in existing insurance contracts (including cost-containment measures), the cost to the taxpayers and premium-payers of implementing such a program, and the disparate impact on health insurance contributions made by employers and employees in areas where VA health-care facilities are located. We, therefore, believe it is premature to consider any savings from such a proposal in the context of the FY 1986 budget process. Nevertheless, should your Committee decide to assume the enactment of health-insurance reimbursement legislation, we strongly urge that your assumptions include: (1) creating such reimbursements as proprietary receipts, as the Administration has said it will propose, with no reduction in the medical care account for any such revenue and with the amount of expected receipts not allocated to either Appropriations Committee under the budget resolution conference report cross-walk; and (2) providing the VA with whatever FTEE and associated resources would be necessary to implement such a program. (Preliminarily, in our view, such requirements would be at least 350 FTEE and $7 million.) Without such safeguards, enactment of a health insurance reimbursement program would have the very real potential of reducing the VA's capacity to provide health care to eligible veterans, a result that we believe would be totally unsupportable.

(Our recommendation is $25.0 million in budget authority and $36.9 million in outlays over baseline.)

- Medical and Prosthetic Research. Add $5.3 million in both budget authority and outlays to the medical and prosthetic research account in order to support 222 FTEE over the level proposed by the President for VA medical and prosthetic research projects.

These additional funds would allow the VA to retain in FY 1986 the same dollar level proposed by the Administration to be available for research efforts for FY 1985. Also, this level would restore 65 FTEE for which funds were appropriated in the FY 1985 HUD-Independent Agencies Appropriations Act but which the VA is not using as well as avoid the further, 157 FTEE reduction proposed in the FY 1986 budget. The VA's failure to utilize the 65 FTEE is similar to the situation discussed earlier in the medical care account and our analysis of the action under this account is the same as, of course, is our opposition to the application of a 5-percent federal pay cut. We are convinced that investments in the VA medical and prosthetic research program pay significant dividends in terms of improvements in the quality of care for America's veterans and do not believe that these programs should suffer the arbitrary reductions proposed by the President from the activity level underway at present. Such reductions would not only reduce future research activity but would have great potential for causing significant disruptions in ongoing research efforts. For these reasons, we urge this modest addition.

(Our recommendation is $7.8 million in budget authority and $5.5 million in outlays less than baseline.)

- Construction. With respect to the VA's medical construction program, we recommend the levels set forth in the VA's budget. We stress, however, that this should not be taken as an indication of our endorsement or approval of any or all of the specific plans for VA construction in fiscal year 1986. The Committee will address the specifics regarding individual projects at the appropriate time through this Committee's major construction project-approval process under section 5004 of title 38, United States Code.

We note, nevertheless, that we are deeply concerned by the Administration's total disregard of our Committee's positions, taken last May in that process, that a bedsizing model for major replacement/modernization projects be developed that emphasizes care for veterans with service-connected disabilities or in receipt of VA pension and that no facilities be constructed with over 700 hospital beds. We intend to continue to pursue this matter with the VA and through the section 5004 Committee-approval process, as well as through the appropriations process and, if necessary, through legislation.

Although at this time we have made no allocation among the three major replacement/modernization projects included in the President's budget -- at Houston, Mountain Home, and Philadelphia -- we do support substantially greater funding than requested by the President for the Philadelphia project for FY 1986 and the appropriation of $6 million for updating the 10-year-old design for a replacement hospital in Baltimore. Also, consistent with the Committee's approval of construction funding last year based on downsizing factors, we continue to believe that projects of over 700 hospital beds are too large, and, in the appropriations process this year (and in subsequent years), we will propose and pursue an amendment to prohibit the use of funds for the construction of any VA medical facility with over 700 hospital beds. Under this approach, the funds for updating Baltimore's design, any resizing, and the reallocation of more funding to Philadelphia than is proposed would all be accomplished within the total amount requested by the President for construction (major and minor combined). However, we will urge the VA to use its working reserve fund to begin immediately any resizing and redesign efforts so that scheduled construction could move forward in FY 1986.

With respect to non-medical construction, we note that the President's budget proposes the appropriation of $6 million for the purposes of land acquisition for a new national cemetery in Northern California. We strongly support the establishment of a new national cemetery there but cannot agree to any expenditure to purchase the land given the fact that there is a parcel of land in Santa Nella/Los Banos, California, that is available to the VA at no cost to the Federal Government for the purposes of a new cemetery. Thus, we support the appropriation of $6 million for a new cemetery but only for the purposes of site preparation and start-up costs associated with establishing it at the Santa Nella/Los Banos site. We note that not only is this a considerably more cost-effective approach but that it would also mean that the new cemetery could be made available considerably sooner to meet the needs of Northern California veterans and their families and that this approach has the support of all the major California veterans' service organizations.

(Our recommendation is $182.2 million in budget authority and $6.5 million in outlays below baseline.)

- Grants for construction of State extended care facilities.

Our recommendation is the same in both budget authority and outlays as the President's budget as reestimated by CBO.

(This is $13.6 million in budget authority below baseline and the same as baseline in outlays.)

Subfunction 704, Veterans' Housing

- Loan Guaranty Revolving Fund. Add $514 million in outlays to reflect the net effect of accepting at this point CBO's very recent estimate that the fund will be self-sustaining in FY 1986 (as well as the next four fiscal years) and of rejecting both the President's request for an appropriation of $404.6 million in the Loan Guaranty Revolving Fund and the VA's proposal to increase the loan guaranty fee from one percent to five percent.

The loan guaranty fee was increased to one percent last year and extended by two years, through FY 1987, in response to the need to shore up the program by diminishing the need for appropriations to meet shortfalls and enable the VA to meet its guaranty commitments. Also, a supplemental appropriation of $100 million was made to the Fund last fiscal year and another $160 million was transferred to the Fund from other benefits program accounts.

The President's budget for FY 1986 includes a request for another appropriation of $404.6 to meet the shortfall that the Administration expects to occur in the fund during FY 1986; alternatively, in lieu of that appropriation, the President's budget proposes the enactment of legislation to increase the VA loan guaranty funding fee by four hundred percent, from one to five percentage points, which, according to CBO, would have an outlay effect of minus $514 million. This approach contrasts sharply with CBO's projection that the Fund will be self-sustaining through the 5-year projection period and that no appropriation or fee increase will be needed to keep the fund solvent in FY 1986 or through fiscal year 1990.

We also note that the VA's Direct Loan Revolving Fund (DLRF) will, according to the VA's budget documents, have an unobligated balance of $77.7 million at the beginning of FY 1986, rising to $122.3 million by the close of the fiscal year. Under a provision included each year in the HUD-Independent Agencies Appropriations Act, unobligated DLRF balances are available for transfer to the loan guaranty fund. Since the DLRF has provided an additional cushion to ensure the solvency of the loan guaranty program, we strongly oppose the Administration's proposal to delete the transfer authority from the FY 1986 appropriations measure and will pursue legislation to provide permanent authority for such transfers.

In light of the foregoing considerations, we do not concur with either the fee-increase proposal or the appropriations request. In our view, the imposition of a 4-percentage point increase in the fee when the receipts are not needed to keep the fund solvent would constitute a particularly heavy burden, as among veterans of war-time service, on veterans of the Vietnam era, who are at this time the most likely to be in the market for their first homes and be most in need of the assistance that the guaranty provides. We stand ready, however, to consider appropriate legislative actions and to exercise necessary oversight responsibilities to ensure the continued solvency of the Fund and the continued effective operation of this successful program.

(Our recommendation results in no change from baseline.)

Subfunction 705, Other Benefits and Services

- General Operating Expenses (GOE). Included in the President's FY 1986 budget is $25.1 million to begin to implement a consolidation, into 3 processing centers, of major Department of Veterans' Benefits (DVB) activities, including adjudication, in the VA's 58 regional offices. Also included in the budget is a reduction of 624 FTEE in DVB staff in FY 1986.

For reasons stated in Senator Cranston's February 8 letter to the Administrator of Veterans' Affairs (copy attached), we believe that the VA cannot lawfully proceed with the consolidation plan. In addition, we have very serious concerns regarding the fairness to veterans and VA employees as well as the wisdom of such a consolidation. However, although we oppose the use of the $25.1 million for consolidation and believe such use would be contrary to law, we urge that the budget request not be reduced by that amount. Rather, we recommend that that amount be used instead for restoration of up to 624 FTEE and for ADP planning and acquisitions that could facilitate increased productivity and efficiency. The FTEE restoration would include an as yet undetermined number of FTEE associated with the consolidation proposal, increased staffing for the Vocational Rehabilitation and Counseling Service (VR&CS) in order to provide for the implementation of the two new pilot vocational training programs provided for in Public Law 98-543 without draining already stretched VR&CS resources from the task of the rehabilitation of service-connected disabled veterans, and increased staffing for the Loan Guaranty Service to ensure a more effective and efficient operation of that program in terms of enhanced VA loan forebearance activities as well as vendee sales.

(Our recommendation is $11.2 million in budget authority and $9 million in outlays below baseline.)

- American Battle Monuments Commission. Our recommendation is the same in both budget authority and outlays as the President's budget as reestimated by CBO.

(This is $541,000 in budget authority and $389,000 in outlays below baseline.)

Other Accounts

As previously noted, we accept the President's budget request for all accounts not specifically discussed, except with respect to the proposed 5-percent federal pay cut.

Cost-Savings Legislation

If our foregoing recommendations for VA accounts are substantially agreed to in the FY 1986 budget and appropriations processes, we will work to develop or support, as a matter of equity and fiscal prudence, legislation yielding up to $50 million in fiscal year 1986 savings in veterans' programs. We would view such savings -- in areas to be determined subsequently -- as a reasonable level to defray part of the medical programs add-on to the President's budget which we strongly urge in order to maintain the VA's ability to provide quality health-care services.

(Our recommendation under the conditions discussed above would be up to $50 million in budget authority and outlays below baseline.)

FUNCTION 500

With regard to the Function 500 accounts for veterans' employment programs designed specifically to assist veterans in finding suitable employment in order that they may become productive participants in the society they fought to maintain, we are in agreement with the President's fiscal year 1986 request except, as previously noted, with respect to the proposed 5-percent federal pay cut.

REVENUES

We want to express our firm opposition to the enactment of any legislation that would subject VA service-connected disability compensation to the federal income tax, as has been proposed in the Department of the Treasury's tax reform and simplification package. We believe that such a proposal would produce an inequitable, unjust, and totally unacceptable result. Specific reasons for our opposition to that proposal are outlined in the preamble of S. Con. Res. 20 (copy enclosed), of which we are all cosponsors, a resolution to express the sense of the Congress that VA compensation should remain tax exempt. We urge the Committee not to include any increased revenues that could be achieved from such a proposal and note that enactment of any such proposal would inevitably lead to the consideration of increases in the benefit rates, in order to restore the real value of the payments, which could consume any revenues raised by taxing the benefits.

* * * * *

We wish to emphasize that we have arrived at our recommendations after a thorough review of veterans' programs and extensive efforts to identify areas in which savings and economies could be achieved consistent with the Congress' continuing commitment to meet its obligations to the Nation's veterans and their survivors, and particularly to service-connected disabled veterans.

These views reflect our best judgment as of this date. If we or the Committee's minority staff may be of further assistance in your consideration of this letter, please feel free to call upon us.

Sincerely,

Spark M. Matsunaga

Alan Cranston
Ranking Minority Member

Dennis
Dennis DeConcini

George J. Mitchell

John D. Rockefeller IV

Enclosures

cc: All Budget Committee Members

United States Senate
COMMITTEE ON VETERANS' AFFAIRS
WASHINGTON, DC 20510

February 8, 1985

Honorable Harry N. Walters
Administrator of Veterans' Affairs
810 Vermont Avenue, N.W.
Washington, D.C. 20420

Dear Harry,

I am writing in response to your February 1, 1985, letter regarding a planned reorganization and consolidation of certain field office functions of the Department of Veterans' Benefits. In that letter, you stated that you "propose to consolidate DVB benefit processing and support activities from 59 regional offices into 3 processing centers over the course of fiscal years 1986 through 1988."

I share with you a strong desire to improve the efficiency of VA operations and the quality of services. I also believe that the VA should make a concerted effort to take advantage of recent advances in communications and data processing technology in order to make such improvements. However, any actions taken in pursuit of the goal of greater efficiency must, I'm sure you will agree, not be at the expense of service to veterans and be carried out in full compliance with the law.

In your February 1 letter, you stated that you were providing notification "[i]n accordance with" section 210(b)(2) of title 38, United States Code. For the reasons discussed below, I believe that your letter fails to meet the requirements of section 210(b)(2) and that this law prohibits action to implement the planned reorganization during FY 1986.

Under the pertinent provisions of section 210(b)(2), you "may not in any fiscal year implement" a reorganization involving a more-than-10-percent reduction in the number of full-time equivalent employees (FTEE's) at any VA facility with more than 25 employees unless you first submit, not later than the date on which the President submits the budget for that year, to the appropriate Congressional committees "a report containing a detailed plan and justification for the ... reorganization." In my view, your letter falls far short of providing the type of "detailed plan and justification" required by the law. For example, the letter does not even indicate the number of employees who would be moved (either in total or from each regional office) or identify the cities at which the 3 processing centers would be located. Nor does the letter state how the consolidation would make the estimated more than 2,300 FTEE-reduction possible other than through a vague and conclusory reference to "efficiencies possible with consolidation", which I do not view as satisfying section 210(b)(2).

Moreover, the letter was totally ambiguous as to whether employees who adjudicate claims and attend hearings requested by claimants would remain in the regional offices. Your letter said both that claims adjudication activities would be centralized and that "operations involving direct personal contact with veterans and beneficiaries" would not be moved. This raises the question whether the adjudication personnel whose duties involve direct personal contact with veteran-claimants, such as conducting hearings, would or would not be moved.

These and many other questions would have to be specifically addressed in any type of "detailed plan" in my judgment.

I believe that your letter also fails to provide a "detailed ... justification". The mere recitation in the letter of claims that the reorganization would enable you to take advantage of recent technological advances, improve efficiency, and achieve savings is unsatisfactory.

In contrast, I note your letters, also dated February 1, 1985, regarding two other proposed reorganizations: the proposed closing of the three data processing and telecommunications field stations and the transfer of certain functions from the VA Prosthetics Center in New York City to a new Prosthetics Assessment and Information Center (PAIC) in the Washington, D.C., area. Both of these letters set forth in much greater detail the specifics of the proposed, much more limited reorganizations (whether or not the data processing letter contains a "detailed ... justification" as required by the law is an open question in my mind). Indeed, in the case of the proposed PAIC, the letter is accompanied by a description of the implementation actions and a summary of the proposal that discusses justification, organization impact, personnel impact, and fiscal and related impacts.

Indeed, you seem to recognize in the letter on the proposed DVB reorganization that you have not provided the requisite plan. You state that a "task force has been established to develop an implementation plan" and that, in July of this year, this "task force" will provide definitive plans on locations and relocation strategies, as well as detailed estimates on translocation and equipment costs ...." It may be that that plan, if accompanied by specific information justifying the reorganization, would provide the level and kind of detail required.

If such a plan and justification is submitted this year (or any time prior to or concurrent with submission of the President's FY 1987 budget), actions to implement the reorganization could lawfully be initiated in FY 1987.

In light of the extensive work that would be necessary to acquire and prepare the office space at the 3 centers, I would also like to emphasize the prohibition in section 210(b)(2) against any "action to carry out" a reorganization until the beginning of the fiscal year with respect to which adequate notification is given. In my view, the law applies not apply only to the transfer and attrition of personnel but also to all actions preparatory to the personnel moves that would be taken pursuant to the plan. Thus, even assuming that the July 1985 notification of this proposed reorganization will meet the law's reporting requirement, I believe that no work may be done or expenditures incurred to implement the reorganization plan until October 1, 1986, the first day of fiscal year 1987.

As you know, Harry, this reorganization proposal is of great interest and deep concern to many veterans, VA employees, and their families and to all members of the House and Senate. Therefore, I would very much like to learn as quickly as possible your responses to the issues I have raised. In addition, I request that you seek a formal written opinion from your General Counsel as to whether your February 1, 1985, letters regarding the proposed DVB reorganization and the closing of three data processing and telecommunications field stations comply with section 210(b)(2) as to an October 1, 1985, implementation date.

As always, I very much appreciate your cooperation and look forward to your prompt reply.

With best personal regards,

Cordially,

Alan Cranston
Ranking Minority Member

cc: Honorable Frank H. Murkowski
Honorable G.V. (Sonny) Montgomery
Honorable John Paul Hammerschmidt

SENATE COMMITTEE ON VETERANS' AFFAIRS DEMOCRATIC MEMBERS' RECOMMENDATIONS FOR FUNCTION 700, VETERANS' BENEFITS AND SERVICES, FOR FISCAL YEAR 1986

BUDGET AUTHORITY

(in thousands of dollars)

Subfunction and Program	Recommendations	Difference from President's Request (reestimated)	Difference from Baseline
701 - Income security for veterans:			
Service-connected compensation	10,076,000	0	0
Proposed legislation:			
Effective December 1, 1985,			
Administration proposes 4.1% COLA;			
Democratic members propose 3.7% (CBO est.)	336,400	– 33,600	0
Non-service-connected pension	3,940,700	0	0
Burial benefits and miscellaneous assistance	144,100	0	0
Insurance programs:			
Veterans' Insurance and Indemnities	9,750	0	0
National Service Life Insurance Fund	1,297,200	0	0
U.S. Government Life Insurance	18,800	0	0
NSLI and USGLI receipts	– 415,189	0	0
Subtotal, income security for veterans	15,407,761	– 33,600	0

FUNCTION 700 - BUDGET AUTHORITY - Cont.

Subfunction and Program	Recommendations	Difference from President's Request (reestimated)	Difference from Baseline
702 - Veterans' education, training and rehabilitation:			
Readjustment benefits	1,006,100	0	0
Post-Vietnam era veterans education account	171,000	0	0
Post-Vietnam era veterans education account receipts	- 171,000	0	0
New GI Bill/DoD Contribution Account	162,000	0	0
New GI Bill/Offsetting Receipts	- 20,000	0	0
Subtotal, veterans' education, training and rehabilitation	1,148,100	0	0
703 - Hospital and medical care for veterans:			
Medical care	9,412,974	+ 322,974	+ 228,854
With Administration-proposed 5-percent pay cut not restored	[9,210,000]	[+ 120,000]	[+ 25,880]
Proposed Legislation:			
Administration proposes to invalidate health-insurance contract clauses excluding carrier liability for VA care and provide for reimbursement from such carriers for the care of non-service-connected disabled veterans, effective October 1, 1985	0	+ 62,000	0

FUNCTION 700 - BUDGET AUTHORITY - Cont.

Subfunction and Program	Recommendations	Difference from President's Request (reestimated)	Difference from Baseline
703 - Cont.			
Medical and prosthetic research	192,372	+ 5,292	- 7,819
With Administration-proposed 5-percent pay cut not restored	[188,085]	[+ 1,005]	[- 12,106]
Medical administration and miscellaneous operation expenses	57,119	+ 1,240	- 15,692
With Administration-proposed 5-percent pay cut not restored	[55,879]	[0]	[- 16,932]
Major construction	417,200	0	- 170,460
Minor construction	195,406	+ 1,006	- 11,721
With Administration-proposed 5-percent pay cut not restored	[194,400]	[0]	[- 12,727]
Grants for construction of State extended-care facilities	22,000	0	- 13,639
Grants to the Republic of the Philippines	500	0	0
Subtotal, hospital and medical care for veterans	10,297,571	+ 392,512	+ 9,523
With Administration-proposed 5-percent pay cut not restored	[10,088,064]	[+ 183,005]	[- 199,984]
704 - Veterans' housing:	0	0	0

FUNCTION 700 - BUDGET AUTHORITY - Cont.

Subfunction and Program	Recommendations	Difference from President's Request (reestimated)	Difference from Baseline
705 - Other veterans' benefits and services:			
General operating expenses	768,250	+ 18,838	− 11,172
With Administration-proposed 5-percent pay cut not restored	[749,412]	[0]	[− 30,010]
Grants for construction of State veterans' cemeteries	3,000	0	0
General Post Fund	15,000	0	0
Other independent agencies:			
American Battle Monuments Commission	10,988	0	− 541
Subtotal, other veterans' benefits and services	797,238	+ 18,838	− 11,713
With Administration-proposed 5-percent pay cut not restored	[778,400]	[0]	[− 30,010]
Unspecified Cost-Savings Legislation *	− 50,000	− 50,000	− 50,000
TOTAL, Function 700, Veterans' ** Benefits and Services	27,600,670	+ 327,750	− 52,190
With Administration-proposed 5-percent pay cut not restored	[27,372,325]	[+ 99,405]	[− 279,994]

See footnotes at end of table

SENATE COMMITTEE ON VETERANS' AFFAIRS DEMOCRATIC MEMBERS' RECOMMENDATIONS FOR FUNCTION 700, VETERANS' BENEFITS AND SERVICES, FOR FISCAL YEAR 1986

OUTLAYS

(in thousands of dollars)

Subfunction and Program	Recommendations	Difference from President's Request (reestimated)	Difference from Baseline
701 - Income security for veterans:			
Service-connected compensation	10,107,000	0	0
Proposed legislation:			
Effective December 1, 1985, Administration proposes 4.1% COLA; Democratic members propose 3.7% (CBO est.)	280,300	− 30,200	0
Non-service-connected pension	3,936,700	0	0
Burial benefits and miscellaneous assistance	144,100	0	0
Insurance programs:			
Veterans' Insurance and Indemnities	9,750	0	0
National Service Life Insurance Fund	1,042,700	0	0
U.S. Government Life Insurance	45,700	0	0
NSLI and USGLI receipts	− 415,189	0	0
Service Disabled Veterans' Insurance Fund	1,000	0	0
Veterans' Reopened Insurance Fund	46,400	0	0
Servicemen's Group Life Insurance Fund	20,100	0	0
Veterans' Special Life Insurance Fund	− 64,500	0	0
Subtotal, income security for veterans	15,154,061	− 30,200	0

FUNCTION 700 - OUTLAYS - Cont.

Subfunction and Program	Recommendations	Difference from President's Request (reestimated)	Difference from Baseline
702 - Veterans' education, training and rehabilitation:			
Readjustment benefits	1,007,576	0	0
Post-Vietnam era veterans education account	211,000	0	0
Post-Vietnam era veterans education account receipts	— 171,000	0	0
Emergency Veterans' Job Training Act	35,000	0	0
Education Loan Fund	— 7,500	0	0
Proposed Legislation:			
Administration proposes repeal of loan authority	0	+ 44	0
Vocational Rehabilitation Fund	— 26	0	0
New GI Bill/DoD Contribution Account	3,000	0	0
New GI Bill/Offsetting Receipts	— 20,000	0	0
Subtotal, veterans' education, training and rehabilitation	1,058,050	+ 44	0
703 - Hospital and medical care for veterans:			
Medical care	9,188,446	+ 322,974	+ 239,858
With Administration-proposed 5-percent pay cut not restored	[8,985,472]	[+ 120,000]	[+ 36,884]
Proposed Legislation:			
Administration proposes to invalidate health-insurance contract clauses excluding carrier liability for VA care and provide for reimbursement from such carriers for the care of non-service-connected disabled veterans, effective October 1, 1985	0	62,000	

FUNCTION 700 - OUTLAYS - Cont.

Subfunction and Program	Recommendations	Difference from President's Request (reestimated)	Difference from Baseline
703 - Cont.			
Medical and prosthetic research	220,253	+ 5,292	— 5,197
With Administration-proposed 5-percent pay cut not restored	[215,966]	[+ 1,005]	[— 9,484]
Medical administration and miscellaneous operation expenses	60,010	+ 1,240	— 11,712
With Administration-proposed 5-percent pay cut not restored	[58,770]	[0]	[— 12,952]
Major construction	454,510	0	— 4,262
Minor construction	202,226	+ 1,006	— 2,188
With Administration-proposed 5-percent pay cut not restored	[201,220]	[0]	[— 3,194]
Grants for construction of State extended-care facilities	23,399	0	0
Special Therapeutic and Rehabilitation Activities Fund	— 10	0	0
Grants to the Republic of the Philippines	500	0	0
Subtotal, hospital and medical care for veterans	10,149,334	+ 392,512	+ 216,499
With Administration-proposed 5-percent pay cut not restored	[9,939,827]	[+ 183,005]	[+ 6,992]

FUNCTION 700 - OUTLAYS - Cont.

Subfunction and Program	Recommendations	Difference from President's Request (reestimated)	Difference from Baseline
704 - Veterans' housing:			
Loan Guaranty Revolving Fund	136,300	0	0
Proposed Legislation:			
Administration proposes to increase loan guaranty fee from one percent to five percent, effective October 1, 1985	0	+ 514,000	0
Direct Loan Revolving Fund	– 50,000	0	0
Subtotal, veterans' housing	86,300	+ 514,000	0
705 - Other veterans' benefits and services:			
General operating expenses	768,117	+ 18,838	– 8,988
With Administration-proposed 5-percent pay cut not restored	[749,279]	[0]	[– 27,826]
Grants for construction of State veterans' cemeteries	2,600	0	0
General Post Fund	15,500	0	0
Canteen Service Revolving Fund	– 307	0	0
Other independent agencies:			
American Battle Monuments Commission	10,994	0	– 389
Subtotal, other veterans' benefits and services	794,904	+ 18,838	– 9,377
With Administration-proposed 5-percent pay cut not restored	[776,066]	[0]	[– 28,215]

FUNCTION 700 - OUTLAYS - Cont.

Subfunction and Program	Recommendations	Difference from President's Request (reestimated)	Difference from Baseline
Unspecified Cost-Savings Legislation *	- 50,000	- 50,000	- 50,000
TOTAL, Function 700, Veterans' ** Benefits and Services	27,192,649	+ 845,194	+ 157,122
With Administration-proposed 5-percent pay cut not restored	[26,964,304]	[+ 616,849]	[- 71,223]

* If the recommendations for the VA accounts reflected in this table are substantially agreed to in the FY 1986 budget and appropriations processes, the Democratic members will develop or support legislation yielding up to $50 million in FY 1986 savings in veterans' programs. For computation purposes, a full $50 million is assumed.

** With Function 700 accounts not within the Committee's jurisdiction, included at baseline levels, the totals would be $27,648,113 in budget authority and $27,220,471 in outlays (with Administration-proposed 5-percent pay cut not restored: $27,438,223 in budget authority and $26,992,126 in outlays). The accounts involved are the Department of Housing and Urban Development, Government National Mortgage Association, Participation sales fund (Veterans housing); Department of the Treasury, Financial Management Service, Miscellaneous trust funds (Other veterans benefits and services); and Department of Defense -- Civil, Cemeterial Expenses, Army Salaries and expenses, Soldiers' and Airmen's Home, Payment of claims, Operation and maintenance, Capital outlays, and Soldiers' and Airmen's Home-Permanent Fund.

99TH CONGRESS
1ST SESSION

S. CON. RES. 20

Expressing the sense of the Congress that payments by the Veterans' Administration to veterans as compensation for service-connected disabilities should remain exempt from Federal income taxation.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 26 (legislative day, FEBRUARY 18), 1985

Mr. CRANSTON (for himself, Mr. MURKOWSKI, Mr. MITCHELL, Mr. STAFFORD, Mr. SPECTER, and Mr. SASSER) submitted the following concurrent resolution; which was referred to the Committee on Finance

---

CONCURRENT RESOLUTION

Expressing the sense of the Congress that payments by the Veterans' Administration to veterans as compensation for service-connected disabilities should remain exempt from Federal income taxation.

Whereas the Department of the Treasury, as part of its tax reform initiative, has proposed to tax Veterans' Administration compensation paid to veterans who suffer from service-connected disabilities;

Whereas this benefit is the means through which a grateful Nation seeks to recognize and repay the sacrifices made and hardships incurred by those who have suffered disabilities in the line of duty;

Whereas compensation benefit levels have been provided on a tax-exempt, wage-replacement scale, based on the average earning impairment caused by the disability, and disruption of this relationship by taxing these benefits would inevitably lead to consideration of the need for raising the payment levels, which could consume any revenues raised by taxing the benefit; and

Whereas the Treasury Department's proposal to tax compensation would place a higher tax burden on more severely disabled veterans and would violate the policy of compensating veterans with greater degrees of disability at sufficiently higher rates to reflect those veterans' disproportionately greater needs: Now therefore, be it

Resolved by the Senate (the House of Representatives concurring), That—

(1) it is the sense of the Congress that payments by the Veterans' Administration to veterans as compensation for service-connected disabilities should remain exempt from Federal income taxation, and

(2) the President is urged to reject any proposal to tax such payments in connection with any tax reform legislation that the President submits to the Congress.

MARK ANDREWS, NORTH DAKOTA, CHAIRMAN
BARRY GOLDWATER, ARIZONA
SLADE GORTON, WASHINGTON
FRANK H. MURKOWSKI, ALASKA
JOHN MELCHER, MONTANA
DANIEL K. INOUYE, HAWAII
DENNIS DE CONCINI, ARIZONA
PAUL ALEXANDER, STAFF DIRECTOR
PETER S. TAYLOR, GENERAL COUNSEL
MAX I. RICHTMAN, MINORITY STAFF DIRECTOR

United States Senate
SELECT COMMITTEE ON INDIAN AFFAIRS
WASHINGTON, D.C. 20510

March 18, 1985

Honorable Pete V. Domenici
Chairman
Committee on the Budget
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

In accordance with the provisions of Section 301(c) of Public Law 93-344, I am enclosing the Report of the Select Committee on Indian Affairs on budget requests for fiscal year 1986.

The recommendations of the Select Committee relate to programs administered by the Bureau of Indian Affairs in the Department of the Interior, the Indian Health Service and the Administration for Native Americans in the Department of Health and Human Services, and Indian education programs under Title IV, Indian Education Act, administered by the Department of Education. The Committee also has oversight jurisdiction over Indian housing programs administered by the Department of Housing and Urban Development. The Committee has included a discussion of Indian housing needs in this Report but notes that actual budgetary recommendations for this program will be made by the Committee on Banking, Housing and Urban Affairs.

Programs administered by the Bureau of Indian Affairs amount to roughly $1 billion and account for approximately one-half of our budgetary recommendations. The Administration's request for BIA programs is $91 million less than the fiscal year 1985 baseline. To achieve this reduction the Administration proposes to zero fund programs authorized under the Johnson-O'Malley Act of 1936, as amended, to assist Indian children attending public schools ($28.8 million saving); requests no authority or funds for construction or planning and design of new schools ($13.6 million saving); and requests no funds for on-going irrigation construction projects ($10.6 million saving). The Committee does not agree with these Administration requests. The Administration's budget proposal for fiscal year 1986 also proposes a savings of $11.4 million to achieved through a 5% pay cut of BIA employees. The Committee has taken no position on this proposal.

For most programs administered by the BIA the Committee has recommended funding at fiscal year 1985 program levels. An important exception to this is funding of Tribally Controlled Community Colleges. There has been a continual increase in the number of students attending these institutions with no commensurate increase in funding. The Committee recommends an increase in funding for this program sufficient to provide these colleges with a per student funding level of $2,812 per student, an amount equal to that appropriated in fiscal year 1983.

The Indian Health Service also accounts for nearly one-half of the Committee's budgetary recommendations. The Administration's requests for IHS is $758.5 million, a reduction of $184.5 million from the $943 million fiscal year 1985 baseline. This saving is to be achieved by zero funding the Community Health Representative program ($26.6 million saving); zero funding the Urban Health program ($9.8 million saving); zero funding the Tribal Management program ($2.4 million saving); and requesting only $2.5 million for construction and repair of Indian health facilities ($95.2 million saving). The Committee disagrees with these recommendations and recommends appropriations for most IHS programs at roughly the fiscal year 1985 baseline. The Committee has accepted a reduction of $40 million in the Hospital and Health Clinic program consistent with Administration anticipated Medicaid/Medicare collections to off-set such reduction.

The Committee recommendations for IHS total $904.5 million, a reduction of $38.5 million from the fiscal year 1985 baseline. The Committee has taken no position on the proposed 5% pay cut for IHS employees which the Administration estimated would save $13 million.

Warm regards,

Sincerely,

Mark Andrews
Chairman

99thCongress
1st Session

S. Prt.
99-

BUDGET VIEWS AND ESTIMATES
FOR FISCAL YEAR 1986

A REPORT

Submitted To The

BUDGET COMMITTEE

(Pursuant to Section 301(c) of Public Law 93-344)

Prepared By The

SELECT COMMITTEE ON INDIAN AFFAIRS
UNITED STATES SENATE

March, 1985

Printed for the use of the Select Committee on Indian Affairs

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U.S. Government Printing Office

Washington: 1985

SELECT COMMITTEE ON INDIAN AFFAIRS

MARK ANDREWS, North Dakota, Chairman

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SLADE GORTON, Washington
FRANK H. MURKOWSKI, Alaska
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Peter S. Taylor, Staff Director
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United States Senate
SELECT COMMITTEE ON INDIAN AFFAIRS
WASHINGTON, D.C. 20510

March 18, 1985

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Chairman
Committee on the Budget
United States Senate
Washington, D. C. 20510

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Warm regards,

Sincerely,

Mark Andrews
Chairman

TABLE OF CONTENTS

Page

LETTER OF TRANSMITTAL iii

INTRODUCTION.. 1
CONSOLIDATED CHARTS 4

BUREAU OF INDIAN AFFAIRS, DEPARTMENT OF INTERIOR.................. 11

EDUCATION SCHOOL OPERATIONS 12
  Indian School Equalization Program................................ 13
  School Boards 13
  Johnson-O'Malley Educational Assistance 14

BUREAU OF INDIAN AFFAIRS, EDUCATION 15
  Continuing Education Subactivity................................... 15
  Post Secondary... 16
  Tribally Controlled Community Colleges............................. 16

INDIAN SERVICES 17
  Tribal Government Services... 18
  Social Services 18
  Law Enforcement 18
  Self-Determination Services 19
  Navajo-Hopi Settlement Program..................................... 19

ECONOMIC DEVELOPMENT & EMPLOYMENT PROGRAMS......................... 20

NATURAL RESOURCES DEVELOPMENT 20
  Forestry & Agriculture... 20
  Minerals & Mining/Irrigation Power................................. 21

TRUST RESPONSIBILITIES... 21
  Indian Rights Protection... 21
  Real Estate/Financial Trust Services............................... 21

FACILITIES MANAGEMENT 22

GENERAL ADMINISTRATION... 22

CONSTRUCTION... 23
  Buildings & Utilities 23
  Irrigation Systems... 24
  Housing 25

MISCELLANEOUS APPROPRIATIONS....................................... 25

TABLE OF CONTENTS (Cont'd)

Page

INDIAN HEALTH SERVICE, DEPARTMENT OF HEALTH & HUMAN SERVICES 26
Clinical Services 29
Hospital & Health Clinic Programs........ 30
Dental Services........ 30
Mental Health........ 30
Alcoholism 30
Maintenance & Repair 30
Contract Care........ 31
Preventive Health 31
Sanitation 32
Public Health Nursing........ 32
Health Education 32
Community Health Representatives 33
Urban Health........ 33
Indian Health Manpower........ 34
Tribal Management 35
Direct Operations 35
Indian Health Facilities........ 35

OTHER HUMAN DEVELOPMENT SERVICES PROGRAMS 38
Administration for Native Americans........ 38

DEPARTMENT OF EDUCATION 38
Title IV, Indian Education Act Program........ 38
Impact Aid, Construction........ 39

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT 39
Indian Housing Program........ 39

PART I

INTRODUCTION

The Select Committee on Indian Affairs is the authorizing Committee for program operations of the Bureau of Indian Affairs (BIA) in the Department of the Interior, Indian Health Service (IHS) and Administration for Native Americans (ANA), in the Department of Health and Human Services (HHS), and the Office of Indian Education (OIE) in the Department of Education. In addition, the Committee has oversight responsibility for operation of programs in other agencies affecting Indians, including the Indian Housing program of HUD.

Specifically, Senate Resolution 4, the Committee System Reorganization Amendments, charges the Select Committee as follows:

> It shall be the duty of the Select Committee to conduct a study of any and all matters pertaining to problems and opportunities of Indians, including but not limited to, Indian land management and trust responsibilities, Indian education, health, special services, and loan programs, and Indian claims against the United States.
>
> The Select Committee shall from time to time report to the Senate, by bill or otherwise, its recommendations with respect to matters referred to the Select Committee or otherwise within its jurisdiction.

In furtherance of this responsibility, the Select Committee, on February 27, 1985, held oversight hearings on FY'86 budget submissions of the BIA, IHS, HUD, and the Office of Indian Education.

The programs administered by the BIA, IHS, HUD, and the Office of Indian Education, as well as those of other Federal agencies with Indian programs are of an extremely broad scope, literally spanning the breadth of Federal, State, and local governments, but with the addition of protection and management of trust resources of Indian people and Indian tribes to which the United States has a trust responsibility.

The Federal budget, as it relates to Indian programs, must be considered in the context of the unique relationship that the United States maintains with the Indian tribes and the Alaska Native communities.

Federal policy has long recognized that Indian tribes within the boundaries of the United States are "domestic, dependent nations." As such, the Supreme Court has held that the tribes have surrendered only those powers of sovereignty which are inconsistent with their dependent status. All other governmental powers still remain. As a result, Indian tribes are not political subdivisions of the States nor are they local governments within the meaning of most State and Federal statutes. Rather, the tribes and the United States exercise a direct government-to-government relationship with one another.

In 1934, in furtherance of this policy, Congress enacted the Indian Reorganization Act (Act of June 18, 1934; 25 U.S.C. 461 et seq.) setting forth a new policy toward the Indian tribes and providing, among other things, for the political reorganization of the tribes in accordance with the terms of that Act if the tribes so chose. In 1936, the provisions of this Act were extended to the Territory of Alaska (Act of May 1, 1936, 25 U.S.C. 473a) and a separate Act with similar provisions pertaining to tribes in Oklahoma was enacted (Act of June 26, 1936; 25 U.S.C. 501 et seq.).

In contrast with this Federal relationship, the historical relationship of Indian tribes and the States has been one of separation. Tribes are not political subdivisons of states and thus often do not receive funding assistance from state governments. In addition, in the absence of specific legislative directive, Federal pass-through monies allocated to states all too frequently are not passed through to the tribe. In examining Federal budget allocations or reductions in Indian programs, it is thus necessary to consider that (1) tribes do not generally receive supplemental funding from state governments on the same basis as county and municipal governments; (2) that tribes for the most part do not have other sources for raising revenues that state or local governments enjoy; and, (3) that there is a direct government-to-government relationship between the United States and the Indian tribes. Thus, when Federal monies for Indian programs are reduced or eliminated there is no replacement source to which the tribes can look.

A counterpart to the government-to-government relationship of the United States with the Indian tribes is the trust relationship and the obligations this imposes on the United States not only with respect to protection of trust resources but in assuring delivery of services to the Indian people at least commensurate with that delivered to our non-Indian citizens. At the reservation level, this obligation is obvious. While it is less obvious, it is just as real for off-reservation programs. During the decade of the 70's Congress, in a number of Acts, specifically recognized the needs of Indians living in urban and rural off-reservation areas. Thus, an Indian component was included in the Comprehensive Employment and Training Act (CETA) enacted in 1973; and is now carried forward as the Job Partnership Training Act; education benefits were extended to off-reservaton Indians through the Indian Education Act of 1972; health programs consisting principally of outreach and referral but also of some direct care were extended to off-reservation Indians through enactment of the Indian Health Care Improvement Act of 1976; and authorization of funding for Indian child welfare programs was provided with enactment of the Indian Child Welfare Act of 1978. The Administration for Native American

Programs at HHS continues service to Alaskan Natives, Hawaiians, and American Indians both on and off reservation which commenced in the 1960's. Each of these programs was enacted after extensive hearings and on the basis of ascertained need of the service populaton which was not being met by state or local governments.

This budget report is provided in two parts: Part I provides in table form the Committee's recommendations for the next five year period for the major program categories; Part II is more detailed and provides both table format and text discussion of the FY'85 budget recommendations. All textual discussions concern areas where Committee's recommendation differs from the Administration's request for FY'85.

BUREAU OF INDIAN AFFAIRS
FISCAL YEAR 1985 BUDGET REQUEST

(In thousands of dollars)

PROGRAMS	BASELINE FY1985	ADMIN. FY1985 REQUEST	SCIA RECOMMEND.
EDUCATION (Subfunction 501)			
School Operation	$ 177,265	$189,778	$ 190,251
Johnson O'Malley Educ. Assist.	28,857	---	28,857
Continuing Education	53,256	55,985	62,480
Education Contract Support	$ 13,073	$ 7,732	$ 7,732
Sub-Total	$ 272,451	$253,495	$ 289,320
INDIAN SERVICES (Subfunction 452)			
Tribal Government Services	$ 25,935	$ 32,077	$ 32,077
Social Services	104,984	114,110	114,110
Law Enforcement	44,354	48,450	48,450
Self-Determination Services	24,162	21,545	25,188
Navajo-Hopi Settlement Program	2,773	2,886	2,886
Indian Services Contract Support	14,935	---	---
Sub-Total	$ 217,144	$219,068	$ 222,711
ECONOMIC DEVELOPMENT & EMPLOYMENT PROGRAMS (Subfunction 452)			
Employment Development	$ 25,414	$ 26,240	$ 26,944
Business Enterprise Development	15,528	15,523	15,523
Road Maintenance	21,890	22,806	23,458
Economic Development/Employment Contract Support	2,675	---	---
Sub-Total	$ 65,507	$ 64,569	$ 65,925

NATURAL RESOURCES DEVELOPMENT (Subfunction 302)			
Forestry and Agriculture	$ 84,932	$ 90,248	$ 90,248
Minerals, Mining, Irrigation & Power	20,758	16,488	16,488
Natural Resource Development Contract Support	4,460	---	---
Sub-Total	$ 110,150	$106,736	$ 105,735
TRUST RESPONSIBILITIES (Subfunction 452)			
Indian Rights Protection	$ 20,550	$ 19,290	$ 19,290
Real Estate and Financial Trust Service	28,301	31,160	31,160
Trust Responsibilities Contract Support	797	---	---
Sub-Total	$ 49,648	$ 50,450	$ 50,450
FACILITIES MANAGEMENT (Subfunction 452)	$ 88,368	$ 90,390	$ 90,390
GENERAL ADMINISTRATION (Subfunction 452)			
Management and Administration	$ 48,260	$ 48,910	$ 48,910
Automatic Data Processing	17,748	17,966	17,966
Employee Compensation Payments	6,958	7,523	7,523
Program Management	4,905	4,311	4,311
Cost-of-Living Increases for "638" Employees	---	---	3,183
Sub-Total	$ 77,671	$ 78,710	$ 81,893
CONSTRUCTION (Subfunction 452)			
Building and Utilities	$ 56,509	$ 37,490	$ 59,702
Irrigation Systems	25,853	15,759	26,399
Housing	22,736	16,995	22,736
Sub-Total	$ 105,098	$ 70,245	$ 108,837

ROAD CONSTRUCTION (Total) (Subfunction 452)	$ 5,880	$ ---	$ ---
CONTRACT SUPPORT (Subfunction 452)	$ 35,940	$ ---	$ ---
MISCELLANEOUS APPROPRIATIONS	41,758	45,000	70,000
TOTAL	$1,069,725	$978,564	$1,096,252

HEALTH & HUMAN SERVICES
FISCAL YEAR 1985 BUDGET REQUEST
INDIAN HEALTH SERVICE
(Subfunction 551)

(In thousands of dollars)

PROGRAM	BASELINE FY1985	ADMIN. FY1985 REQUEST	SCIA RECOMMEND.
CLINICAL SERVICES (Subfunction 551			
Hospital & Health Clinic	$468,531	$418,221	$428,938
Dental Services	24,923	25,215	25,530
Mental Health	11,179	11,304	11,433
Alcoholism	24,582	24,776	26,000
Maintenance & Repair	8,570	8,673	8,964
Contract Care	163,956	165,866	174,121
Sub-Total	$701,741	$654,055	$674,986
PREVENTIVE HEALTH (Subfunction 551)			
Sanitation	$ 20,299	$ 20,272	$ 20,684
Public Health Nursing	12,260	12,195	12,557
Health Education	3,589	3,573	3,688
CHR	25,480	-0-	25,652
Hepatitis B	3,626	2,721	2,721
Sub-Total	$ 65,254	$ 38,761	$ 65,312
URBAN (Subfunction 551)	$ 9,800	$ -0-	$ 10,407

INDIAN HEALTH MANPOWER (Subfunction 551)	$ 5,499	$ 5,499	$ 5,324
TRIBAL MANAGEMENT (Subfunction 551)	$ 2,450	$ -0-	$ 2,573
DIRECTION OPERATIONS (Subfunction 551)	$ 59,523	$ 56,778	$ 62,313
INDIAN HEALTH FACILITIES (Subfunction 551)	97,765	2,450	81,148
IHS TOTAL	$943,032	$758,543	$904,553

HEALTH & HUMAN SERVICES
FISCAL YEAR 1985 BUDGET REQUEST

(In thousands of dollars)

PROGRAM	BASELINE FY1985	ADMIN. FY1985 REQUEST	SCIA RECOMMEND.
ADMINISTRATION FOR NATIVE AMERICANS (Subfunction 505)	$29,000	$27,300	$34,900

DEPARTMENT OF EDUCATION (Title IV, Indian Education Act)
FISCAL YEAR 1985 BUDGET REQUEST

(In thousands of dollars)

PROGRAMS	BASELINE FY1985	ADMIN. FY1985 REQUEST	SCIA RECOMMEND.
PART A	$50,323	$50,323	$50,323
PART B	11,760	11,760	11,760
PART C	2,940	2,940	2,940
PART D	2,381	2,269	2,269
TOTAL	$67,404	$67,292	$67,292

BUREAU OF INDIAN AFFAIRS, DEPARTMENT OF THE INTERIOR

The Bureau of Indian Affairs (BIA) was created in the War Department in 1824 and in 1849 was transferred to the Department of the Interior. The history of the relationship between Indian tribes and the U.S. Government reveals that the mission of the BIA was founded on a government-to-government relationship and the trust responsibility. The Bureau, therefore, as an agent of the U.S. Government, recognizes a fundamental responsibility to American Indian tribes, Alaska Native groups, and the tribal form of government. The Bureau's mission is presently viewed as three-fold: (1) to recognize and preserve the inherent rights of tribal self-government, to strengthen tribal capacity for self-government, and to provide resources for tribal government programs; (2) to protect the rights of Indian people in dealing with other governmental entities and the private sector; and (3) to fulfill and execute the Federal Government's responsibility for trust resources and property.

Programs administered by the Bureau of Indian Affairs are extremely broad in scope. The two largest programs, education and social services, account for approximately 40 percent of the BIA budget request for FY'85. Education alone accounts for nearly 30 percent of the budget. This does not include requests for construction or facility improvement and repair of schools and related structures. Funds for construction and facility improvement and repair appropriated in FY'85 equalled approximately 17.5 percent of the funds appropriated to BIA for FY'85. Thus, education, social services, new construction, and facilities improvement and repair account for nearly 60% of the entire BIA budget.

While 80 percent of all Indian students within the BIA service population attend public schools, the remaining 20 percent are provided direct education through schools operated by the Bureau. Of these children, approximately 42 percent are in BIA residential or boarding schools because their families do not live within walking distance of a public or Federal day school or available bus route, or because of special social or academic factors. The BIA thus operates, either directly or by contract, some 159 elementary and secondary schools and 14 dormitories servicing an estimated 41,481 students in 23 states. The remainder of the funding request provides funding for grant to college level or post-graduate students for continuing education. For the first time since 1935, the Administration proposes to eliminate the Johnson-O'Malley Act program which provides funding for public schools for special programs of benefit to Indian children for a proposed saving of $29,957,000.

The Social Service program, which is the second largest program administered by the Bureau, provides welfare assistance to Indians when such assistance is not available through state or local public agencies. Financial assistance and social services are not provided by public welfare agencies of some states, particularly those states where public programs are funded and administered from local county revenues based on real property taxes. Some 17 states meet this criteria for alternative provision of BIA social services. The BIA social service program is divided into four parts: General Assistance, which accounts for 73 percent of the requested funding; child welfare assistance; miscellaneous emergency assistance; and Indian Child Welfare Act grants.

In addition to these programs, the BIA is responsible for management and protection of natural resources of individual Indians and the tribes, such as forestry, agricultural lands, minerals and mining, fisheries and irrigation and power; maintenance of over 26,000 miles of paved and unpaved roads within the reservations; provision of law enforcement services and support of tribal courts; management of Indian trust funds totalling approximately $1-1/2 billion; provision of technical assistance and core support to tribes to enable the tribes to contract for and administer Federal programs; and provision of funds either through loans or grants to stimulate economic development on the reservations.

The Synder Act of 1921 (42 Stat. 208; 25 U.S.C. 13) provided substantive law for appropriations covering the activities of the Bureau of Indian Affairs. The scope and character of the authorizations contained in this Act were broadened by the Indian Reorganization Act of 1934 (48 Stat. 948; 25 U.S.C. 461 et seq.); by the Indian Self-Determination and Education Assistance Act of 1975 (188 Stat. 2203; 25 U.S.C. 450); by amendments to Title XI of the Elementary and Secondary Education Amendments Act of 1978 (P.L. 95-561); by the Indian Child Welfare Act of 1978 (P.L. 95-608); and the by Tribally Controlled Community College Assistance Act of 1978 (P.L. 95-471, as amended).

EDUCATION SCHOOL OPERATIONS

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
A. Indian School Equal. Program:			
1. Indian School Equal. Formula	$152,179	$154,370	$154,370
2. Indian School Prog. Adjustments	1,775	1,775	1,775
B. Education Standards			

(Implementation)	---	1,900	1,900
C. Institutionalized Handicapped	2,342	2,342	2,342
D. School Board Expenses	1,200	727	1,200
Training Fund	515	515	515
E. Student Transportation	10,187	11,887	11,887
F. Technical Support Agency & Area Offices	9,067	8,530	8,530
G. School ~~Operations~~ Contract Support	---	7,732	7,732
TOTAL	$177,255	$189,778	$190,251

Indian School Equalization Program.

The Committee recommends $156,145 for the Indian School Equalization Program (ISEP) for FY'86. This figure corresponds with the Administration's request. The Committee, however, continues to support the appropriations concept of "Forward Funding" of the Bureau's education programs as the most appropriate and expeditious method for insuring that schools have sufficient time and the necessary funds to plan for educational services to its children. Although the Bureau has implemented a "one-week" count in FY'85, there are indications that some schools continue to receive late funding allocations for the current academic year. Therefore, the Committee recommends that when the Bureau makes its request for appropriations for FY'87, that it also include FY' 88 funding. The forwarding funding of its education program can thus be accomplished. The Bureau of Indian Affairs has authority to request forward-funding for its programs under the auspices of the Snyder Act.

School Boards.

The Committee recommends $1,200,000 for the "Expenses" portion of School Boards in FY'86. This compares with the Administration's estimate of $727,000. The Committee's recommendation is greater because it is based on the Bureau's FY'85 estimated "Expenses" for school boards. For FY'86, the Bureau has set a maximum amount each school board can expend for its meetings, including Agency school board meetings, association dues, and legal fees. The maximum amounts are based on the levels of student enrollment. Schools with student enrollments of 250 and below would receive $730 less per school than those schools with 250 and above; while On-Reservation Boarding Schools of 500 students and above would receive $2,200 less per school board than a comparable enrollment level Off-Reservation Boarding School. Regardless of the enrollment level, school boards may be similar in the number of its members, range of responsibilities, etc. The scale of enrollment levels and commensurate maximum amounts per school board do not adequately address relevant factors such as locations of schools, distances which school board members must travel to school board meetings, variances in legal fees, per diems, stipends, other costs relative to regularly scheduled and special meetings, and fees for membership in school board organizations. In short, a scale mathematically based on enrollment levels does not appropriately reflect differences in the amounts a school board needs to adequately carry out its responsibilities. The Committee, however, does agree with the Bureau's FY'86 estimate of $515,000 for the "Training Fund" portion for School Boards. The Committee would like to note that in FY'84 and 85 "Training Fund" monies were allocated to contractors who provided the regional and centralized school board training extremely late in the academic year. The Committee urges the BIA to allocate the training funds in a timely manner so that school boards can utilize the training during the academic year.

JOHNSON-O'MALLEY EDUCATIONAL ASSISTANCE

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
JOM Education Assistance	$25,674	$ -0-	$25,674
JOM Contract Support	$ 3,183	$ -0-	$ 3,183
TOTAL	$28,857	$ -0-	$28,857

The Administration has not requested any funding for the Johnson-O'Malley Educational Assistance Program (JOM) for FY'86. The Committee believes the justification used by the Bureau of Indian Affairs for the termination of the JOM Program is inadequate. It appears that the reasons cited for its elimination stem from problems related to the administration of the program, rather than its substance. Other reasons for its total elimination included findings which are at best questionable and inconclusive. For example, the Bureau notes the findings of a study of Indian education programs in public schools "indicates that states are taking a more active role in meeting the special needs of Indian students." The extent to which states are taking a more active role is not explained, nor are the types of "special" needs the states are addressing. The Bureau states that the "JOM program duplicates other Federal and state programs." However, testimony received from tribal and Indian educational organizations and schools sharply disagrees with the Bureau's position.

It is important to note that when the Committee held oversight hearings on the FY'84 budget, the Bureau was asked to respond to a recent General Accounting Office report that indicated the JOM program was not duplicative of the Title IV, Part A program. BIA witnesses responded that generally the two programs were not duplicative. Where there were instances of duplication, the BIA coordinated with the Department of Education, which administers the Title IV, Part A program, to insure minimal duplication. At that same oversight hearing, the Assistant Secretary for Indian Affairs at the Department of the Interior stated that the JOM program was one of the three programs which should be considered priority and would be held harmless against budget cuts. The Committee believes that whatever problems exist in the areas of duplication with other federal programs and the questionable use of JOM funds by some public schools can be corrected through the monitoring system of the BIA. The Committee, therefore, disagrees with the Administration's request for zero funding for this program and recommends funding at the level of $23,857,000, the same amount that was appropriated in FY'85.

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BIA EDUCATION: Continuing Education Subactivity.

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Higher Educ.	$26,868	$29,423	$29,423
Special Higher Ed.	2,050	2,050	2,050
Adult Educ.	3,474	3,704	3,704
Post-Secondary	9,045	9,009	9,045
Tribally Controlled Community Colleges	11,819	11,800	18,259
TOTAL	$53,256	$55,986	$62,480

Post Secondary.

The Committee notes that the BIA requests $9,009,000 for the operation of Haskell Indian Junior College, Institute of American Indian Arts (IAIA) and Southwestern Indian Polytechnic Institute (SIPI); $36,000, less that appropriated in FY'85. There is no explanation of the reason for this decrease. Therefore, the Committee recommends the current appropriated level of $9,045,000 for the Post Secondary Schools for FY'86.

Tribally Controlled Community Colleges.

The Committee disagrees with the Bureau's budget request for Title I Tribally Controlled Community Colleges (TCCCs), and with the BIA's basis for the request. Due to inacurrately low projections of student count for FY'86, the current request of $6,950,000 is not sufficient to maintain the TCCCs at acceptable levels.

The FY'86 budget requests the same dollar amount as appropriated in FY'85, even though, by the BIA's own estimates, there will be an increase in enrollment. For purposes of clarity, the Committee will focus on the Full-Time Equivalent count (FTE), although the BIA has for FY'86 converted to the Indian Student Count (ISC), as mandated by the Tribally Controlled Community Colleges Assistance Act of 1978, as amended by Public Law 98-192. A comparison of the projected and final counts as shown in the FY'85 Budget Justification (Budget) and the FY'86 budget clearly shows the BIA counts to be in error -- to the detriment of the TCCCs. In the FY' 85 budget, the BIA projected a FY'84 FTE of 2,500. However, in the FY'86 budget, the BIA states that the final '84 FTE was 2,516. Again, in the FY'85 budget, the BIA projected an '85 FTE count of 2,549, while the FY'86 budget projects the '85 figure at 2,826 -- a difference of 277 FTE.

Based on working experience with the American Indian Higher Education Consortium's (AIHEC) projected student counts, which, although normally lower than BIA final audited counts are much closer to the final counts, the Committee accepts AIHEC's projection of ISC for FY'86 of 3,540, as compared to the BIA's 3,278 ISC. AIHEC has utilized the same formula for computing the new ISC as the BIA, but has projected a higher total, based on the TCCCs' experienced growth rate and the prior year's final count.

Under the BIA's proposed FY'86 budget, the per student dollar amount would be far less than that received in past years. Due to the continued lowering of dollars, the colleges have been unable to retain professors and staff and to maintain or expand their curriculum: factors that are a threat to continued accreditation of the schools.

The Committee recommends a level of $2,812/ISC for a total of $9,945,480 for Title I TCCCs. This per count dollar figure is that appropriated per FTE in FY'83, and, due to the inflation over the past three fiscal years and the increase in count due to the new ISC computation, will keep the Colleges on a level equal to FY'83.

The Committee also disagrees with the budget request for Navajo Community College (NCC), Title II, and the BIA's basis for the request. Analysis of Title II shows that NCC is not to be funded by the same formula as Title I schools, but rather is to receive an amount equal to that necessary to carry out the operation and maintenance of the College. The Committee is disturbed by the BIA's continued failure to prepare the regulations under which NCC's funding is to be determined. In the absence of regulations, the Committee recommends that NCC be budgeted at $5,800,000, based on NCC's current needs and projected FY'86 student enrollment of $2,500.

The Tribally Controlled Community Colleges Assistance Act of 1978, as amended by Public Law 98-192, authorizes forward funding for the program. The Bureau has failed to request funding for use in FY'87 in the FY'86 budget request. The Committee recommends that the BIA include forward funding for FY'88 in the FY'87 Budget Justification for both Title I and Title II colleges.

The Committee notes that the Bureau of Indian Affairs again has not requested any funding for Title III - Tribally Controlled Community College Endowment Program - of the Tribally Controlled Community Colleges Assistance Act of 1978, as amended by Public Law 98-192. Title III, Section.305 authorized $5,300,000 for each of FY'85, '86, and '87.

The Committee disagrees with the BIA's failure to request monies for the Endowment program, and recommends $1,530,000 be included for FY'86.

SUMMARY OF SOURCES OF FUNDS

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Title I	$ 5,950	$ 5,950	$ 9,945
Title II	3,837	3,837	5,800
Technical			

Assistance	115	116	115
Snyder Act	915	897	897
Title III	---	---	1,500
TOTAL	$11,819	$11,800	$13,258

Tribal Government Services.

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Aid to Tribal Government	$17,650	$21,479	$21,479
Tribal Courts	8,285	10,598	10,598
TOTAL	$25,935	$32,077	$32,077

Social Services.

(In thousands of dollars)

	BASELINE FY 1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Welfare Assistance Grants	$ 78,906	$ 82,748	$ 82,748
Indian Child Welfare Act Grants	8,820	8,820	8,820
All Other Social Services	17,258	22,542	22,542
TOTAL	$104,984	$114,110	$114,110

Law Enforcement.

(In thousands of dollars)

	BASELINE FY1985	REQUEST FY1986 REQUEST	SCIA RECOMMEND.
Law Enforcement	$44,354	$48,450	$48,450
TOTAL	$44,354	$48,450	$48,450

Self-Determination Services.

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1985 REQUEST	SCIA RECOMMEND.
Grants	$15,820	$11,514	$15,157
Training & Tech. Assist.	1,775	3,750	3,750
Contract Support	1,566	1,440	1,440
Small Tribes Core Management	4,900	4,841	4,841
TOTAL	$24,162	$21,545	$25,188

The Committee recommends that grants to tribes remain at the FY'85 level minus the dollars transferred to the tribe/agency level for Training and Technical Assistance.

Navajo-Hopi Settlement Program.

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Navajo-Hopi Settlement Program	$2,773	$2,885	$2,885
TOTAL	$2,773	$2,885	$2,885

ECONOMIC DEVELOPMENT & EMPLOYMENT PROGRAMS

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Employment Develop.	$25,414	$26,240	$25,944
Bus. Enterprise Dev.	15,688	15,523	15,523
Road Maint.	21,990	22,806	23,458
Econ. Dev/Empl. Contract Support	2,575	---	---
TOTAL	$65,667	$64,569	$65,925

The Committee disagrees with the budget request for employment development. In view of the fact that 175,000 Indians are unemployed, the Committee recommends that funding be continued at the current level plus the GNP factor and additional funding for United Tribes Educational Technical Center (UTETC). The Committee recommends $25,944,000 for develoopmennt/assistance (within this element funding for UTETC at $1,730,000 due to increased enrollment and equipment costs).

The Committee also disagrees with the budget request for road maintenance. In view of the fact that there has been severe winter damage to the thousands of miles of roads on Indian reservations, the Committee recommends that funding be increased for inflation: $22,832,000. The Committee also recommends an additional $626,000 for Road Construction, to be used to repair and construct roads at United Tribes Technical and Educational Center in Bismarck, North Dakota. The total for this activity would be $23,458,000.

NATURAL RESOURCES DEVELOPMENT: Forestry & Agriculture.

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Natural Resources, General	$ 1,852	$ 2,407	$ 2,407

Agriculture	23,515	22,905	22,905
Forestry	32,315	31,485	31,485
Water Resources	7,155	9,239	9,239
Wildlife and Parks	19,672	23,789	23,789
Fire Suppression	422	422	422
TOTAL	$84,932	$90,248	$90,248

NATURAL RESOURCES DEVELOPMENT: Minerals & Mining/Irrigation & Power.

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Minerals and Mining	$12,801	$ 8,507	$ 8,507
Irrigation & Power	7,957	7,981	7,981
TOTAL	$20,758	$16,488	$16,488

TRUST RESPONSIBILITIES: Indian Rights Protection.

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Environmental Quality	$ 1,165	$ 1,053	$ 1,053
Indian Rights Protection	19,384	18,237	18,237
TOTAL	$20,550	$19,290	$19,290

Real Estate/Financial Trust Services.

(In thousands of dollars)

	BASELINE FY 1985	ADMIN. FY 1986 REQUEST	SCIA RECOMMEND.
Trust Services, General	$ 999	$ 1,049	$ 1,049
Real Estate Serv.	23,644	26,148	26,148
Financial Trust Serv.	3,658	3,963	3,963
TOTAL	$28,301	$31,160	$31,160

FACILITIES MANAGEMENT

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Facilities Mgmnt.	$88,368	$90,390	$90,390
TOTAL	$88,368	$90,390	$90,390

GENERAL ADMINISTRATION

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986	SCIA RECOMMEND.
Management & Administration	$48,260	$48,910	$48,910
Automatic Data Processing	17,748	17,966	17,966
Employee Compensation Payments	6,858	7,523	7,523
Program Management	4,805	4,311	4,311
Cost-of-Living Increases for "638" Employees	-0-	-0-	3,183
TOTAL	$77,671	$78,710	$81,893

The Committee recommends $3,193,000 necessary to pay the 1985 cost-of-living increase for tribal employees under Indian Self-Determination Act contracts, "P.L. 93-638", in FY'86. Notwithstanding the requirements of section 105(h) of the Indian Self-Determination Act that "638" employees be treated the same as civil service employees, BIA has denied the "638" employees the FY'85 cost-of-living increase and has not included funds in the FY'86 request to give them that raise. This is done upon the grounds that the "638" employees will not be asked to take the proposed 5 percent FY'86 Federal pay cut. In the event that Congress rejects the general pay cut, "638" employees will be unfairly and illegally discriminated against unless this amount is restored to the FY'86 budget.

CONSTRUCTION: Buildings & Utilities.

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Education Projects	$13,651	$ -0-	$15,475
Non-Education Construction	2,668	-0-	-0-
Advanced Planning & Design	-0-	-0-	2,600
Facility Improvement & Repair	40,190	37,490	41,627
TOTAL	$56,509	$37,490	$59,702

The Committee does not agree with the Bureau's recommendation to zero-out school construction. The only justification given by the BIA is that the Administration's FY'86 policy of the Administraton is to request no new construction for any type of project: housing, schools, irrigation systems, etc. This type of blanket rationale ignores the unique relatonship between the Federal Government and Indian tribes as well as the rural isolation and physical condition of existing schools. The Committee recommends $15,475,000 for school construction in FY'86. This amount wil allow new construction of the following three schools, which, according to the BIA, will be ready for construction in FY'86:

Two Eagle River, MT	$ 3,575,000

Rocky Boy, MT	2,500,000
Turtle Mountain, ND	9,400,000
TOTAL:	$15,475,000

In addition, the Committee notes that the BIA has not requested any monies for planning and design of new schools. For the same reasons as stated above, the Committee disagrees with the BIA's recommendation and recommends $2,600,000 for planning and design in FY'86. This amount will allow planning and design at approximately six schools, as follows: Turtle Mountain, ND; Pine Ridge, SD; Crow Creek, SD; Coeur d'Alene, ID; Paschall-Sherman, WA; and, Cheyenne-River, SD.

Although the Bureau states that facility improvement and repair is a priority for FY'86, as opposed to new construction, the BIA requests less than the FY'85 funding. A review of the BIA's priority list for F I & R indicates that the requested level is insufficient. The Committee recommends that the F I & R acount be budgeted at last year's level plus the GNP inflation factor for a total of $41,627,000.

Irrigation.

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Irrigation	$25,853	$15,759	$26,399
TOTAL	$25,953	$15,759	$38,999

The Committee notes that the BIA has not requested any monies for on-going construction projects: projects that are currently in construction or awaiting the final dollars for construction. The Committee, therefore, recommends an additional $10,640,000 for the following construction projects:

Ft. Belknap, Milk River Project, MT	$ 1,000,000
Rosebud, SD	$ 540,000
Navajo Indian Irrigation Project	$ 9,100,000

The Committee is very concerned with the Bureau's actions in regards to the Canyon Day, AZ project. The Congress has appropriated $4,600,000 for the beginning of this project ($1,500,000 in FY'82 and $3,100,000 in FY'83). The BIA has not released this money for the project to the White Mountain Apache Tribe nor begun construction. The BIA's reason for this refusal to expend the monies already appropriated is that the total dollars necessary for the project need to be appropriated before any dollars can be expended. The Committee does not understand this rationale since the majority of irrigation projects are funded in phases. The Committee, therefore, recommends that the BIA proceed with the Canyon Day project and expended the funded dollars to commence phase contruction.

The Committee is also concerned with the failure of the BIA to request monies for the Navajo Indian Irrigation Project (NIIP). This project was authorized in 1962, under P.L. 87-483, in recognition of an agreement between the Navajo Nation, the State of New Mexico, and the United States. Yet, to date, the project is still not complete. The $9,100,000 recommended for FY'85 would allow irrigation of an additional half block.

Housing.

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1985 REQUEST	SCIA RECOMMEND.
Housing	$22,735	$16,995	$22,735
TOTAL	$22,735	$16,995	$22,735

The Committee disagrees with the BIA's request for the Housing subactivity. Again, the Bureau has requested no monies for new construction, for the same reasons as given for zeroing school construction. The Committee, again, disagrees with this rationale and the proposed budget cut, and recommends that $6,169,590 be restored to this account. This money will provide for the construction of approximately 171 new houses in Indian country, and will bring the program back to last year's appropriated level. The Committee, therefore, recommends that Housing be budgeted at $22,735,000.

MISCELLANEOUS APPROPRIATIONS

(In thousands of dollars)

		ADMIN. FY1985 REQUEST	SCIA RECOMMEND.
Miscellaneous Appro.	---	$45,000	$70,000
TOTAL	$41,759	$45,000	$71,000

The Committee notes that the BIA's request does not reflect the agreement which the Navajo Tribe and the Bureau negotiated to address the financial problems facing the Navajo Agricultural Products Industry (NAPI). Under this agreement, the Tribe assumed the responsibility to repay $25.3 million of NAPI's current debt with the understanding that the Bureau would extend to the Tribe a 20-year, interest-free $25 million loan for the balance of NAPI's debt. This interest-free loan will enable the Tribe to clear BIA loans to NAPI and keep the revolving loan program solvent, the Committee recommends the appropriation of $25 million for a twenty year, interest-free loan to the Navajo Tribe under the miscellaneous appropriations account.

DEPARTMENT OF HEALTH & HUMAN SERVICES: Indian Health Services.

The Indian Health Service (IHS) is the largest direct health care program for non-military citizens currently administered by the Federal government. The IHS provides direct health care and referral services to approximately 987,000 Indian and Alaska Native people residing on reservations and in urban environments.

The President's justification for the Fiscal Year 1985 budget establishes three broad objectives for the Indian Health Service. The first broad focus is the promotion and implementation of disease prevention and health promotion goals and objectives. The second broad area of focus for strengthening the IHS program is in the nature of management improvements. The third broad focus is the promotion of self-determination activities.

The Committee finds that the President's budget request for the Indian Health Service for Fiscal Year 1985 not only fails to support the stated objectives but will further undermine the ability of the Indian Health Service to realize the goals outlined in the IHS budget justification. First, rather than expanding the capacity of the Indian Health Service to provide health promotion and disease prevention services, the President's budget request proposes a reduction of over $26 million in the area of preventive health and the elimination of the Community Health Representative program--the primary vehicle for the delivery of health promotion and disease prevention services within the Indian Health Service. Of a total budget request of over seven hundred and fifty-eight million dollars, only $2 million is proposed for allocation to the IHS resource patient management system. This management system would enable the Indian Health Service to enhance its revenue-producing potential by developing the capacity to bill for services rendered on the basis of the Federally-mandated diagnostic related groups, to readily identify Medicaid- and Medicare-eligible patients, and to provide itemized billings to third party insurers. The management system would also provide the Indian Health Service with an automated capacity to manage patient information and maintain medical records. The resource patient management system would further establish a capacity within the Indian Health Service to link remote and isolated IHS service areas to IHS hospital and clinics and to provide the Indian patient with greater access to limited physician and other health care personnel resources. The two million dollars requested for the development of a system that is so critical to the improved management of the Indian Health Service is insufficient to assure that the second broad focus outlined in the IHS budget justification will be achieved any time in the near future. The President's budget request for Fiscal Year 1985 also proposes termination of the tribal management program, a program that is designed to support tribal capacity-building activities, planning efforts, training, resource development and the development of tribal management sytems. The elimination of this principal IHS mechanism for fostering self-determination activities among Indian tribes and tribal organizations can be expected to seriously thwart IHS efforts to realize the third broad area of focus for strengthening the Indian Health Service program.

The Fiscal Year 1985 budget request for Indian Health reflects a decrease of $95,558,000 from the 1985 appropriation. The Department proposes to partially offset this reduction by the application of Medicaid and Medicare reimbursements to base program obligations. The Committee questions the use of Medicare and Medicaid reimbursements to fund the costs of printing and patient travel, as well as basic program efforts. Because restrictions of the Social Security Act and the Indian Health Care Improvement Act expressly prohibit the use of Medicaid and Medicare funds to offset IHS appropriations, the Committee has disallowed all proposed Medicaid and Medicare offsets in its recommendations.

The Committee remains opposed to "the rationing of health care to Indian people", promulgated through the budget process. Testimony received by the Committee indicates that the health status of Indian people remains well below that of the general population. To encourage progress toward the goal of establishing Indian health status parity with U.S. citizens nationally, the Committee recommends that the Indian Health Service be appropriated funds sufficient to assure that IHS programs can be maintained at Fiscal Year 1985 operating levels. Toward this end, the Committee has accepted IHS projections built-in program increases for Fiscal Year 1986, even though IHS projected built-in increases often fall below the percentage of health-care cost inflation projected nationally. Built-in increases are defined in the Indian Health Service budget justification as increases which reflect the impact of inflation on a program, including such items as funding of the full-year costs of increased positions in the 1985 appropriation, within-grade promotions, increased costs of medical supplies, and the increased cost of health care provided under contracts or grants. The built-in increase is the amount that would be necessary for the Indian Health Service to maintain in Fiscal Year 1986, the Fiscal Year 1985 level of program effort. Program decreases have been disallowed in the Committee's recommended levels of funding.

The Committee is vigorously opposed to the proposal to merge the IHS facilities construction account with the Indian Health appropriation. Representatives of the Department have requested the proposed merger on the basis that it will facilitate reprogramming of funds from one account to another. Given the past reluctance of the Department to expend the funds that Congress has appropriated for the construction of IHS facilities, the Committee is opposed to any accounting mechanism that would allow the Department greater flexibility to reprogram funds out of the facilities construction account. The $97,765,740 of unobligated funds in the IHS facilities construction account in Fiscal Year 1985 serves as current evidence of the Department's reluctance to comply with Congressional directives in this area. The proposed merging of facilities and services accounts will make it even more difficult for Congress to ascertain the need for facilities construction, or any change in Administration policy affecting IHS facilities. The Committee strongly recommends that the Committees on Budget and Appropriations reject the proposal to merge IHS services and facilities accounts.

Again, in Fiscal Year 1986, the IHS budget request for the construction of IHS facilities is insufficient to complete the construction of all IHS facilities that are presently in some phase of construction. Although representatives of the Department have assured the Committee that funds will be requested in future years to complete construction, the Committee is concerned that the delays in completing construction will incur greater costs to the Federal government and that the costs associated with such completions will greatly exceed original cost projections.

The Committee is very concerned that the President's budget request for Fiscal Year 1986 once again proposes to offset various clinical service program expenses with projected reimbursements from Medicare and Medicaid. There are at least two reasons for the Committee's serious concern over this practice. First, given the $25,922,000 collected from Medicaid and Medicare sources in Fiscal Year 1984, the Committee believes that Department projections of $54,100,000 in Medicaid/Medicare collections for Fiscal Year 1985 are unrealistic. In addition, Department representatives have testified that there have been no changes in the billing or collection procedures employed by the Indian Health Service to increase Medicaid and Medicare collections. First quarter evidence of Medicaid/Medicare collections in Fiscal Year 1985 would also seem to indicate that the Department's projections of $54,100,000 in Medicaid and Medicare collections for Fiscal Year 1986 are similarly unrealistic.

A second but no less important concern over the proposed use of Medicaid/Medicare collections is its potential to violate restrictions of P.L. 94-437 (the Indian Health Care Improvement Act) that limit the use of Medicaid/Medicare reimbursements for the exclusive purpose of enabling the Indian Health Service to achieve and maintain accreditation of IHS hospitals and facilities. Public Law 94-437 specifically provides that, "Any payment received for services provided recipients hereunder shall not be considered in determining appropriations for the provision of health care and services to Indians." This limitation is waived only upon the certification of the Secretary that all IHS hospitals and eligible facilities comply with required standards. Committee reports interpreting the Act's restrictions make clear that Medicaid/Medicare funds are not to be used to supplant IHS appropriations. Such funds are intended instead only to supplement IHS appropriations. For these reasons, the Committee recommends that the Senate Committees on Budget and Appropriations disallow the proposed Medicaid/Medicare offsets to the IHS budget.

Clinical Services.

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Hospital & Health Clinic	$468,631	$418,221	$428,938
Dental Services	24,923	25,215	25,530
Mental health	11,179	11,304	11,433
Alcoholism	24,482	24,775	25,000
Maintenance & Repair	8,570	8,573	8,954
Contract Care	163,956	165,965	174,121
TOTAL	$701,741	$654,055	$674,985

Hospital and Health Clinic Program.

The Committee recommends a funding level of $429,939,000 for the Hospital and Health Clinic program for Fiscal Year 1986, an 8% decrease from the amounts projected to be available for obligation in Fiscal Year 1985. The recommended funding level is based on the Fiscal Year 1985 direct appropriations level and the Fiscal Year 1986 IHS projection of built-in increases for this program, to enable IHS to maintain services at Fiscal Year 1985 levels. Consistent with Committee concerns outlined above, proposed Medicaid/Medicare offsets to base program obligations have been disallowed.

Dental Services.

The Committee's recommended funding level for Dental Services in Fiscal Year 1986 consists of the Fiscal Year 1985 direct appropriation level and the Fiscal Year 1986 IHS projections of built-in increases for this program, for a total of $25,530,000. The proposed program decrease has been disallowed to assure that IHS can maintain services at the Fiscal Year 1985 level.

Mental Health.

For Fiscal Year 1986, the Committee recommends an increase of 2% over Fiscal Year 1985 appropriations level for a total of $11,433,000. The 2 percent recommended increase is based on IHS projections of built-in increases for Fiscal Year 1986 and will allow IHS to maintain mental health services at Fiscal Year 1985 levels. The program decrease proposed in the IHS budget justification has been disallowed.

Alcoholism.

The Committee recommends a 6 percent increase over Fiscal Year 1985 appropriation levels which includes IHS projections of built-in increases for Fiscal Year 1986 to maintain the alcoholism program at Fiscal Year 1985 levels, and additional support to strengthen IHS program initiatives and administrative capacities, for a total of $26,000. Because testimony received by the Committee indicates that alcoholism continues to be identified as the most significant health problem among Indian and Alaska Native populations, the Committee believes that a greater effort to focus resources on alcohol and drug abuse prevention and education is warranted.

Maintenance & Repair.

In its Fiscal Year 1986 budget justification, IHS estimates that $2 million from the regular annual maintenance and repair program is anticipated to be applied toward reducing the high priority backlog of essential maintenance and repair deficiencies which total over $64 million. The Committee accepts IHS projections of built-in increases for maintenance and repair program increases and has added such increases to the Fiscal Year 1985 appropriations base to comprise the Committee's recommendation of $8,964,000 for maintenance and repair for Fiscal Year 1986.

Contract Care.

The Committee accepts IHS projections of built-in increases in the contract care program for Fiscal Year 1986 and has added such increases to the Fiscal Year 1985 appropriations base to comprise the Committee's recommendation of $174,121,000 for contract care for Fiscal Year 1986. The Committee continues to be concerned about the application of competitive bidding to the purchase of contract care, and urges the Secretary to exempt the Service from the requirements of competitive bidding if in the judgment of the Chief Medical Officer, the quality of health care provided to Indian patients will be negatively affected.

Preventive Health.

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
Sanitation	$20,299	$20,272	$20,694
Public Health Nursing	12,260	12,195	12,567
Health Education	3,599	3,573	3,588
Community Health Representative	25,480	-0-	25,652
Hepatitis B	3,625	2,721	2,721
TOTAL	$65,254	$38,761	$65,312

The IHS budget justification indicates that the first broad focus for strengthening the IHS program in Fiscal Year 1984 and continuing in Fiscal Years 1985 and 1986 will be to promote and implement disease prevention and health promotion goals and objectives. In contrast to the those stated goals, the President's budget request for Fiscal Year 1986 calls for a 59 percent reduction of funds below Fiscal Year 1985 levels for preventive health. Testimony received by the Committee from health care professionals continues to stress the importance of preventive health initiatives in raising the health status of Indians and Alaska Natives to the highest possible level. Health care experts add that funding of preventive health programs maximizes the most efficient use of the Federal investment in health care for Indian and Alaska Native people. Health promotion and disease prevention programs have been initiated in many of the major Federal agencies including the Departments of Defense and Health and Human Services. In light of goverment-wide activities in the field of preventive health, the Committee questions the reduced emphasis on preventive health in the President's budget request for the Indian Health Service for Fiscal Year 1986. The Committee's recommendation of $55,312,000 includes IHS projections of built-in increases in the preventive health program to maintain preventive health services at Fiscal Year 1985 levels.

Sanitation.

The Committee accepts IHS projections of built-in program increases for the sanitation program for Fiscal Year 1986 and has added such increases to the Fiscal Year 1985 appropriated base to comprise the Committee's recommendation of $20,594,000 for sanitation for Fiscal Year 1986. The Committee's recommended funding level will allow the sanitation program to be maintained at Fiscal Year 1985 operating levels.

Public Health Nursing.

The Committee is disallowing proposed program decreases in the public health nursing program that according to the IHS budget justification, will result in a reduction of 4,300 public health nursing services compared to Fiscal Year 1985. The Committee's recommended funding level of $12,567,000 will enable the public health nursing program to be maintained at Fiscal Year 1985 operating levels, accepting IHS projections of built-in increases for the public health nursing program for Fiscal Year 1986 and adding such increases to the Fiscal Year 1985 appropriated base.

Health Education.

There is substantial evidence that health education is a critical component of the IHS preventive health effort, and that much of the success that has been achieved in reducing infant mortality and morbidity among Indian and Alaska Native groups can be attributed to increased health education. Because of the importance of health education in preventing disease and promoting health among Indian and Alaska Native people, the Committee is disallowing proposed decreases to the health education program. Instead, the Committee accepts IHS projections of built-in increases for the health education program in Fiscal Year 1985, and has added such increases to the Fiscal Year 1985 appropriated base for a recommended funding level of $3,688,000. The recommended funding level should enable the continuation of health education initiatives at Fiscal Year 1985 levels.

Community Health Representatives.

In Fiscal Year 1985, the Indian Health Service estimates that Community Health Representatives will provide approximately 1.95 million health care services in the areas of general health care, dental health care, gerontological health care, maternal and child health care, mental health care, and environmental health services in the home, community and clinic settings. The Community Health Representative program contracts with tribal governments to provide community-oriented primary health care services to Indian and Alaska Native communities. Despite ample, credible evidence that the direct patient care responsibilities of Community Health Representatives are well within the scope of IHS budgetary objectives, the Administration is once again requesting elimination of the program on the grounds that IHS must focus its budget resources on maintaining key inpatient and outpatient medical care services. As the only IHS program that is almost completely staffed and operated by native and tribal health care providers, and as a program that allows tribal communities to determine which services can most effectively address community-specific health care needs, the Committee finds that the proposed elimination of the Community Health Representative program is inconsistent with the Presidential policy of Indian self-determination. Evidence received by the Committee indicates that most IHS physicians and health care professionals perceive the Community Health Representative program to be the most culturally-relevant and effective means of providing quality care to the IHS patient population. The Committee strongly supports the Community Health Representative program and recommends a funding level of $25,652,000 for Fiscal Year 1985. The recommended level of funding will allow the Indian Health Service to maintain the Fiscal Year 1985 program effort for the Community Health Representative program.

Urban Health.

(In thousands of dollars)

BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
$9,900	-0-	$10,407

The President's budget request for Fiscal Year 1986 again proposes elimination of all 37 urban Indian health programs. Testimony and evidence presented to the Committee indicates that these programs have demonstrated their effectiveness and success at making health care available to the 50 percent of the Indian population that resides in urban areas. Documentation submitted to the Committee supports the finding that in the absence of these urban Indian health care programs, there are no alternative health resources that have the facilities, personnel, or financial capacity to serve the urban Indian patient population.

Given the demonstrated effectiveness of these programs and the lack of viable alternative health care resources, the Committee recommends a funding level of $10,407,000 for Fiscal Year 1986 for the urban Indian health care programs. This funding level should allow continuation of the urban Indian health care program at Fiscal Year 1985 operating levels.

Indian Health Manpower.

(In thousands of dollars)

BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
$6,499	$6,499	$6,824

The Indian Health Manpower program is designed to address shortages of health professionals serving Indian communities. Administration representatives, national Indian organizations and tribal representatives have all testified that the Indian Health Service and Indian communities continue to experience severe shortages of qualified Indian health professionals. The Committee has repeatedly received evidence that the Indians into Medicine program is one of the most effective programs currently recruiting Indian and Alaska Native people into the medical professions, and all testimony received by the Committee supports the recruitment and retention initiatives that are funded through the IHS Indian Health Manpower program as vital components of an effective health manpower program. The Committee recommends a funding level of $6,824,000 for the Indian Health Manpower program in Fiscal Year 1986, which includes $282,450 for the Indians into Medicine program.

Tribal Management.

(In thousands of dollars)

BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
$2,450	-0-	$2,573

As the principal means within the Indian Health Service of carrying out the Presidential policy of Indian self-determination, the tribal management program provides much-needed technical assistance to tribes and native organizations that are preparing to contract IHS programs. The Committee recommends a funding level of $2,573,000 for Fiscal Year 1986 and opposes the Administration's proposal to eliminate this program in Fiscal Year 1986.

Direct Operations.

(In thousands of dollars)

BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
$59,523	$56,778	$62,313

The Committee accepts IHS projections for built-in program increases for Fiscal Year 1986 and has added such increases to the Fiscal Year 1985 appropriated base for a recommended funding level of $62,313,000.

Indian Health Facilities.

(In thousands of dollars)

BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
$97,765	-0-	$81,148

Because of the importance of IHS facilities to the goal of raising the health status of American Indians and Alaska Native people to the highest possible level, the Committee recommends a funding level of $81,148,000 to provide for the activities set forth below.

INDIAN HEALTH FACILITIES

	SCIA 1986	PRIOR APPROPRIATION
Inpatient Facilities - Construction Appropriation:		
1. Rosebud, S. Dak. (Phase I construction)	$10,471	$2,254
2. Sacaton, Ariz. (Final Construction)	12,445	5,099
3. Anchorage, Alaska (Planning & Design)	3,000	2,950
4. Wagner, S. Dak. (Planning & Design)	580	350
5. Pine Ridge, S. Dak. (Phase I Construction)	5,200	1,360
6. Kotzebue, Alaska (Planning & Design)	2,500	N/A
7. Shiprock, Ariz. (Planning & Design)	1,740	N/A
8. Harlem, Mont. (Planning & Design)	878	N/A
Outpatient Facilities - Construction Appropriation		
9. Toppenish, Wash. (Planning & Design)	688	N/A
10. Parker, Ariz. (Planning, Design & Construction)	5,935	N/A
11. Belcourt, N. Dak. (Planning & Design)	1,200	N/A
Personnel Quarters - Construction		
12. Rosebud, S. Dak. (56 units)	5,270	N/A
13. Sacaton, Ariz. (20 units)	1,300	N/A
14. Wolf Point, Mont. (9 units)	855	N/A
15. Kyle, S. Dak. (22 units)	2,090	N/A
16. Ft. Thompson, S. Dak. (21 units)	1,995	N/A
Sanitation Facilities:		
17. BIA-built homes (1,000 units)	9,300	N/A
18. Tribal, other homes (1,900 units)	15,700	N/A
19. HUD-built homes (3,300 units)	(26,400)*	
TOTAL	$81,148	

*To be transferred from HUD to IHS.

OTHER HUMAN DEVELOPMENT SERVICES PROGRAMS: Administration for Native Americans.

(In thousands of dollars)

BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
$29,000	$27,300	$32,000

The FY appropriated level for the Administration for Native Americans Program (ANA) is $29,000,000. The Administration has recommended that the overall budget authority be decreased in FY'86 to $27,300,000. The basic program funding, the Financial Assistance Grants, would remain constant. However, the Training and Technical Assistance funding level of $1,000,000 to zero in FY'86. In addition, the Research, Demonstration, and Evaluation portion of the ANA program would be reduced from the FY'85 funding level of $700,000 to zero in FY'86.

The Training and Technical Assistance and the Research, Demonstration, and Evaluation components of the ANA program are invaluable to the success of the overall program. Both these components have been strongly endorsed by tribes and Native American organizations as beneficial to the goal of ANA, that is, to promote self-sufficiency to American Indians, Alaska Natives and Native Hawaiians by encouraging economic and social development. The Committee supports the continuation of both these components, in addition, to th basic Financial Assistance Grants. While the level of funding for the ANA program has remained relatively constant over the past several years, inflation has reduced the real value almost in half. Currently, the ANA program is only able to fund twenty-five percent (25%) of the applications it receives. The Committee, therefore, recommends that the level of funding for FY'86 be budgeted at $34,000,000 to be distributed as follows: $32,000,000 for Financial Assistance Grants; $1,000,000 for Training and Technical Assistance; and, $1,000,000 for Research, Demonstration, and Evaluation.

DEPARTMENT OF EDUCATION: Title IV, Indian Education Act.

(In thousands of dollars)

BASELINE FY'1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.

PARTS			
A	$50,323	$50,323	$50,323
B	11,750	11,750	11,750
C	2,940	2,940	2,940
D	2,381	2,269	2,269
TOTAL	$67,404	$67,292	$67,292

IMPACT AID: Construction.

(In thousands of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.
	$20,000	---	$20,000
TOTAL	$20,000	---	$20,000

The Committee does not agree with the Department of Education's zero request for construction under Public Law 81-815, as amended. The only justification given for this decision is that it will "help control the Federal deficit." While the Committee shares the Administration's concerns about the growing national deficit, it does not agree with zeroing out school construction, and recommends funding of $20,000,000 for construction grants to local education agencies that are comprised mainly of Indian lands or which provide a free public education to children who reside on Indian lands, as authorized by Section 14(a) & (b) of P.L. 81-815, as amended.

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT: Indian Housing Program.

(In thousand of dollars)

	BASELINE FY1985	ADMIN. FY1986 REQUEST	SCIA RECOMMEND.

	$13,895,946	---	$11,170,000
TOTAL	$13,895,946	$ ---	$11,170,000

Federally-assisted housing on Indian reservations and trust land areas (Alaska and Oklahoma) is provided primarily by the HUD Indian Housing Program. Since the 1960's, HUD has provided assistance in the development and management of housing for Indian and Alaska Natives pursuant to the United States Housing Act of 1937 as amended. According to the Bureau of Indian Affairs' Indian housing inventory for FY'84, approximately, 90,000 Indian families are in need of substantial housing assistance as compared with the 1970 figure of 63,000 Indian families. Of the 149,227 Indian homes, 54,314 are in substandard condition, 37,778 are in need of major renovation to bring them up to standard and 23,535 need complete replacement. A total of 58,771 new houses need to be built to meet the 1984 needs for Indian housing. In addition, 33,097 Indian and Alaskan Natives are homeless.

Since 1981, appropriations for Indian housing have been steadily declining despite the rising need for new units. In FY'85, HUD received $13,895,946 in new contract authority for the Indian Housing Program to build 2,000 new Indian housing units. However, in FY'86, the Administration has proposed a two-year moratorium for Indian housing development funding. This moratorium is part of a government-wide effort to curtail Federal spending to reduce the deficit. According to HUD, the moratorium will not affect the approximately 12,000 units in the development pipeline, which it claims can be utilized during the next two years. However, it is the concern of the Committee that the funds for these "pipeline units" might be subject to deobligation if they are in the "pipeline" over an extended period of time. Currently, there is no statutory provision which would allow the reuse of these units by other housing authorities. In effect, the units could be lost and the backlog of needed Indian housing units substantially increased.

The Committee is also concerned with the provision of water and sanitation to HUD Indian housing units. Since 1982, HUD has committed approximately $65,000,000 for off-site water and sanitation services to HUD units. To date, no formal agreement has been signed between HUD and the Indian Health Service (IHS). The method of "transferring" these Cmmittee funds is so complex, and the process so slow and cumbersome, that only approximately $20,000,000 has been received by IHS or the Indian Housing Authorities. For example, at the end of January, 1985, approximately 400 HUD Indian housing units had been completed, but lacked water and sanitation due to HUD's failure to transfer the funds to IHS. The Committee urges the Appropriations Committee to examine this situation, and, if necessary, directly appropriate the dollars to IHS.

The Committee, therefore, recommends $11,170,000 in new contract authority be budgeted to provide 2,000 new units.

Congress of the United States
JOINT ECONOMIC COMMITTEE
(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 304, 79TH CONGRESS)
Washington, D.C. 20510

March 15, 1985

Honorable Pete V. Domenici
Chairman
Committee on the Budget
U. S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

As required by the Full Employment and Balanced Growth Act of 1978, the Joint Economic Committee herewith submits the democratic and republican views on the President's report on the Act.

Sincerely yours,

Dan Obey

David R. Obey
Chairman

Attachment

Full Employment and Balanced Growth Act of 1978
Joint Economic Committee Report
March 15, 1985

The Full Employment and Balanced Growth Act of 1978 established national numerical goals for unemployment and stable prices. The Act also charged the Joint Economic Committee with the responsibility of reporting on the goals adopted by the President and the policies recommended to achieve them.

In the first Economic Report of the President following the signing of the Act (the 1979 Report), the Act required the President to develop a five-year timetable to reduce the rate of unemployment to 4 percent (3 percent for individuals 20 and older). Over the same time period, inflation was to be reduced to 3 percent. The ultimate goal of the Act was to maintain full employment while reducing the rate of inflation to zero.

Although the Act did not contain other numerical targets, the President was also required to establish short-term (two year) and medium-term (three to five year) goals for employment, production, real income, and productivity. (Sec. 3(a)(2)(A).) The Act labeled trade deficits a "...major problem..." and stressed the need to balance the budget.

The framers of the Act placed a heavy emphasis on the importance of the private sector in achieving national economic goals. In meeting the unemployment goals, the first priority was "...the expansion of conventional private jobs..." and the second was the "...expansion of private employment through Federal assistance." The Congress complemented this emphasis on growth in the private sector by passing the Revenue Act of 1978 which contained a number of incentives for private-sector investment.

In reporting under the Act, the President is required to include an Investment Policy Report which would evaluate the impact of government policy on the availability of investment capital. (Sec. 207(b).) In addition, the government was to adopt fiscal policies that keep "...the share of gross national product accounted for by Federal outlays at the lowest level consistent with national needs and priorities."

THE PRESIDENT'S 1985 ECONOMIC REPORT

The President's Economic Report in 1979, the first following passage of the Full Employment and Balanced Growth Act of 1978, devoted 28 pages to meeting the requirements of the Act. The Report specified an economic path that would meet the medium-term goals of the Act, discussed the question of meeting both the unemployment and inflation goals at the same time, and included an Investment Policy Report.

The 1985 Economic Report of the President takes a very different approach and, in fact, adheres neither to the spirit nor the letter of the Act. In the course of a 2-1/2 page discussion of the outlook for 1985 through 1990, the Economic Report simply mentions that the Full Employment and Balanced Growth Act requires an Investment Policy Report -- the reader is then referred to separate sections of the Economic Report. There is no discussion of short-term or medium-term goals or of how to achieve them; the Report merely notes in passing that the Administration's forecast (for 1985 and 1986) and the Administration's medium-term projections (for 1987 through 1990) "..show substantial progress toward achieving the goals specified in the Act."

The Joint Economic Committee cannot comment on goals and policies that have not yet been proposed. What the Committee can do is to assess the extent to which the economy has moved toward the Full Employment and Balanced Growth Act goals and the degree to which the Administration's forecasts and projections move the economy in the same direction.

EMPLOYMENT AND UNEMPLOYMENT

Over the past decade, the American economy has generated millions of new jobs. In the four-year period from 1977 through 1980, the economy generated a net increase of more than 10 million jobs. After 1980, the upward trend slowed markedly with the creation of 5.7 million new jobs. Despite the slowing trend, the American performance compares favorably with other industrialized countries -- particularly those in Europe. It should be noted that the bulk of the new jobs were in services where the average wage is well below the average in manufacturing. The Joint Economic Committee has asked the Bureau of Labor Statistics to provide accurate data on the wage levels of the new jobs.

Despite the millions of new jobs, there has been much less progress in reducing the civilian unemployment rate to the 4 percent level, and here the recent experience contrasts sharply with what occurred in the 1960's. Over the course of the 1960's, the unemployment rate dropped two full percentage points from 5.5 percent in 1960 to 3.5 percent in 1969. Unemployment crept upward in the 1970's -- reaching a yearly high of 7.7 percent in 1976 and settling at 5.8 percent for 1979. In the 1970's, there was a disturbing tendency for each recovery to reach a peak with a higher rate of unemployment than the preceding recovery. At the same time, inflation plateaued at higher rates in the trough of each recession.

Unemployment has remained historically high throughout the 1980's. The official civilian unemployment rate started with an average 7.1 percent rate for 1980, rose as high as 10.7 percent in November of 1982, and has now fallen to the 7.3 percent recorded in February of this year. There are still 8.4 million Americans looking for jobs that cannot find them, an increase of 681,000 over the level at the end of 1980. In addition, there are 5.3 million Americans working part time because they cannot find full-time work. Another 1.3 million would like work but have given up looking because the prospects appear so bleak.

By any measure, unemployment remains a serious economic problem for the country. The country is faced with a high level of unemployment that has been unequally distributed by region, occupation, and race. In fact, the disparity between black and white unemployment has widened markedly over the last decade. In the early and mid-1970's, the black unemployment rate was approximately twice the white rate -- for 1973-1976, the black rate stood at 12.2 percent versus 6.0 percent for whites. The ratio between the black and white rates rose to about 2.3:1 in the 1970's. Since that time, the blacks have had the worst of both worlds: a continuation of the high black-white ratio and a rise in the black unemployment rate to a four-year average of 17.5 percent.

Unemployment continues to be a serious problem among other specific groups. Many older manufacturing workers displaced by foreign trade and technological change have been unable to find work. The black teenage unemployment rate reached a peak of 48.5 percent in 1983, and in February of this year it still exceeded 45 percent. So many black teenagers are not in the labor force that fewer than one in four actually holds a job. The unemployment rate among Hispanics has remained at or near double-digit levels despite the strength of the recent recovery.

The high levels of unemployment show up in personal loss and disillusionment, in budgetary expenditures for unemployment compensation and welfare, and in the billions of dollars of foregone production that would come with full or even fuller employment.

INFLATION

Despite the rapid pace of the recovery, inflation did not rise above the 4 to 5 percent level. This more than any other factor provided hope that the recovery would continue to remain strong through the remainder of 1985 and into 1986 and beyond.

A variety of factors contributed to the overall moderation in the pace of inflation. The worldwide recession of 1981 and 1982 significantly cut oil consumption as did various energy conservation steps taken by government, corporate, and private consumers since the mid-1970's. Food prices have also risen slowly over the past four years. A drop in foreign demand coupled with the strong dollar have reduced the overseas market for U.S. farmers. At the same time, domestic production has continued to grow.

The strong dollar has also contributed to the good performance on inflation. Recent testimony before the Joint Economic Committee indicated that the dollar is overvalued by 30 percent. Some economists put the figure even higher. As a result, imports (roughly 11 percent of GNP) are considerably cheaper than they would be with a more competitive dollar. (Because of various trade restraints, not all imports are affected equally by the strong dollar.) In addition, some 70 to 80 percent of U.S. manufactured products face foreign competition. In effect, the strong dollar makes imports cheaper and keeps many domestic prices down at the same time.

Perhaps the most important structural change in the economy relative to prices was the fact that wage expectations remained low during 1984 despite the strength of the recovery. Several factors probably played a role in leading workers to accept less than might ordinarily be expected -- the severity of the 1981-1982 recession, the persistence of high unemployment, and the slowing of inflation itself. Progress against inflation does not mean that the possibility of renewed inflation has disappeared. At some point, the strong dollar is likely to come down. Imports will rise in price and so may some domstic goods that compete with imports. Americans should not have to be reminded that unexpected political events overseas can sharply raise the price of imported oil.

LOOKING AHEAD: UNEMPLOYMENT AND INFLATION OVER THE NEXT FIVE YEARS

The Administration has not set employment goals for the next five years or specifically described how it would reach such goals. It has only made forecasts and projections that cover the period from 1985 through 1990. The Administration's forecasts and projections are reproduced below as Table I.

Table I

ADMINISTRATION ECONOMIC ASSUMPTIONS, 1985-1990
(Calendar Years)

Item	1985	1986	1987	1988	1989	1990
			Level			
Employment (millions)1/	109.1	111.3	113.5	115.8	117.7	119.4
Unemployment rate (%)2/	7.0	6.9	6.6	6.3	6.1	5.8
			Percent Change			
Consumer prices3/	4.1	4.3	4.2	3.9	3.6	3.3
Real GNP	3.7	4.0	4.0	4.0	3.9	3.6
Real compensation per hour4/	0.3	1.3	1.8	2.7	2.9	3.1
Output per hour4/	1.5	1.6	1.7	1.8	2.2	2.4

1/ Employment series includes resident Armed Forces.
2/ Unemployed as percent of labor force. See footnote 1.
3/ For urban wage earners and clerical workers.
4/ Nonfarm business, all persons.

Source: 1985 Economic Report of the President, February 5, 1985, p.64.

If the Administration's optimistic projections prove to be correct, the economy would make progress toward lowering unemployment and reducing inflation. According to Administration projections, unemployment will fall to 5.8 percent in 1990 and inflation (as measured by the consumer price index) will fall to 3.3 percent.

Although such progress would be positive, the 1990 projections still fall far short of the goals specified in the Full Employment and Balanced Growth Act of 1978. Unemployment would still be 1.8 percentage points above the long-term goal specified in the law. At 3.3 percent, inflation would be three-tenths of one percentage point (0.3) above the interim goal and 3.3 percentage points above the long-term inflation goal of zero percent.

The projections of the Congressional Budget Office for the same period are less optimistic than those of the Administration. The CBO forecasts and projections are reproduced below as Table II.

Table II

CONGRESSIONAL BUDGET OFFICE ECONOMIC ASSUMPTIONS, 1985-1990

	1985	1986	1987	1988	1989	1990
Real GNP, percent change	3.5	3.2	3.3	3.4	3.4	3.4
GNP Deflator, percent change	3.6	4.6	4.4	4.2	4.2	4.2
Civilian Unemployment Rate	7.1	6.9	6.7	6.6	6.4	6.2
3-Month Treasury Bill Rate	8.3	8.7	8.2	8.2	8.2	8.2

Source: Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1986-1990*, February 6, 1985, p.xiv.

The CBO foresees inflation (as measured by the GNP deflator) rising slightly to reach a 4.2 percent rate in 1990. Unemployment inches down by about two-tenths of one percent a year to reach 6.2 percent at the end of the decade. If the future looks more like the CBO projections than those of the Administration, the country will be further from the 4 percent unemployment and 3 percent inflation goals.

The CBO projections assume that "...real GNP and labor productivity will grow at rates precisely equal to their average growth in the eight-year periods following earlier postwar recessions." The Administration's projections are based on a combination of assumptions about the growth in the labor force and the growth of productivity in the nonfarm business sector. Crucial to their higher growth rate is a more optimistic assumption about productivity growth. In the Administration's view, productivity growth from 1985 to 1990 will return to the 2.0 percent per year average recorded between 1948 and 1981. This rate is well above the 0.7 percent per year for the 1973-1981 period and slightly ahead of the 1.9 percent rate of the 1981-1984 period.

Can the economy do better? Could faster growth bring the economy closer to full employment and stable prices? The high growth alternative of CBO suggests that we can make further progress on the unemployment front but only at the expense of more than doubling the inflation rate, unless major improvements are made in policies to address structural unemployment. (See CBO: The Economic and Budget Outlook: Fiscal Years 1986-1990, pp. 44-46.)

STRUCTURAL POLICIES

The Full Employment and Balanced Growth Act of 1978 recognized the limits of overall economic policy. Title II of the Act lists a number of policies that could be used to deal with structural unemployment.

In any circumstances, the ability to achieve long-term full employment and stable prices will require a substantial commitment to education and training. Complaints that a large portion of the American work force has not mastered the basic skills needed for modern industrial life and the growing number of unfilled positions in a number of technical specialties both point to a need for greater emphasis on education. The Administration is moving in the opposite direction. By concentrating its budget cuts in the relatively small portion of the budget devoted to personal security and investments in the future, like education, the Administration is effectively ignoring the millions of structurally unemployed Americans and lowering the long-term economic potential of the country as well.

CONCLUSION

The Administration has emphasized rapid growth as a key to lowered unemployment. Their projections, if realized, would move the economy in the right direction of lower rates of unemployment and lower rates of inflation. They do not, however, meet the goals established by the Act.

Legal requirements of the Full Employment and Balanced Growth Act of 1978 have not been met. Goals for unemployment and inflation have not been set. Nor have policies been spelled out that would attack the continuing problem of unacceptably high unemployment.

Even if Administration growth projections were met, the country would still have millions of Americans looking for work who could not find it. Because the ultimate responsibility of an economic system is to provide for economic growth and the fulfillment of individual potential, it is all the more important to explore alternative macroeconomic and microeconomic policies that will bring the country much closer to truly full employment.

REPUBLICAN VIEWS
ON
THE FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1978

The Full Employment and Balanced Growth Act of 1978 established the numerical goals of 4 percent unemployment and 3 percent inflation for a combined so-called "misery index" of 7 percent. In 1980, this index stood at 19.4 percent -- 7.0 percent unemployment and 12.4 percent inflation. In 1984, the index was 11.4 percent -- 7.4 percent unemployment and 4.0 percent inflation. In January 1985, the index was 10.9 percent -- 7.3 percent unemployment and 3.6 percent inflation. Some view the goals of the Full Employment and Balanced Growth Act of 1978 as illusory, unattainable and "pie-in-the-sky." Others of us have greater faith in the strength of our economic system. While we do not support the arbitrary and largely political legislating of economic goals, the economic programs designed and implemented by the Reagan Administration over the last four years have brought the goals of the 1978 Act within reach.

We believe a generation of real economic growth and rising employment opportunities is attainable. This will require further strengthening of policies which reduce Federal spending, taxation and regulation, and raise private sector savings, investment, anbd self-reliance. This policy guideline must be coupled with a stable monetary policy which will accommodate growth. The policy must also provide a free-market environment to promote entrepreneurship, seeking innovative approaches to solving problems, taking risks, and creating new economic opportunities.

To reach our goals, Federal spending must become a declining share of GNP, thus reducing the Federal deficit. Personal saving, as the seed capital for new investment, must be increased as a percent of disposable personal income. Investment in physical and human capital are needed to increase productivity and competitiveness of the economy, promote noninflationary economic growth, expand job opportunities, and raise living standards for all Americans.

ROLLCALL VOTES IN COMMITTEE

Rollcall votes taken during Committee consideration of this legislation are as follows:

March 5, 1985

1. On the question of economic assumptions and the baseline, shall the Committee adopt the Chairman's recommendation?

Motion agreed to: 12 Yeas 10 Nays

Yeas:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Andrews
Symms
Grassley
Kasten
Quayle
Gorton
Danforth

Nays:
Chiles
Hollings
Biden
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon

2. Riegle motion to set totals in Function 050, Defense at:

	1985	1986	1987	1988
Budget Authority	292.6	292.6	314.4	337.5
Outlays	252.0	269.6	286.9	305.9

Motion rejected: 8 Yeas 14 Nays

Yeas:
Kassebaum
Grassley
Chiles
Johnston
Sasser
Metzenbaum
Riegle
Lautenberg

Nays:
Domenici
Armstrong
Boschwitz
Hatch
Andrews
Symms
Kasten
Quayle
Gorton
Danforth
Hollings
Hart
Moynihan
Exon

3. Hollings motion to set totals in Function 050, Defense at:

	1985	1986	1987	1988
Budget Authority	292.6	303.7	326.9	352.0
Outlays	252.0	273.5	293.9	315.4

Motion agreed to: 18 Yeas 4 Nays

Yeas:	Nays:
Domenici	Hatch
Armstrong	Symms
Kassebaum	Kasten
Boschwitz	Quayle
Andrews	
Grassley	
Gorton	
Danforth	
Chiles	
Hollings	
Johnston	
Sasser	
Hart	
Metzenbaum	
Riegle	
Moynihan	
Exon	
Lautenberg	

March 6, 1985

4. Kasten motion to set totals in Function 150, International Affairs at:

	1985	1986	1987	1988
Budget Authority	25.1	23.7	23.9	24.5
Outlays	18.2	18.0	18.5	18.7

Motion rejected: 9 Yeas 10 Nays

Yeas:	Nays:	Not voting:
Hatch	Domenici	Armstrong
Andrews	Kassebaum	Grassley
Symms	Boschwitz	Quayle
Kasten	Gorton	
Danforth	Chiles	
Johnston	Hollings	
Sasser	Hart	
Riegle	Metzenbaum	
Moynihan	Exon	
	Lautenberg	

5. Chiles motion to set totals in Function 150, International Affairs at:

	1985	1986	1987	1988
Budget Authority	25.2	22.0	20.0	20.4
Outlays	18.0	17.8	16.7	16.1

Motion agreed to: 18 Yeas 1 Nay

Yeas:	Nays:	Not voting:
Kassebaum	Domenici	Armstrong
Boschwitz		Grassley
Hatch		Quayle
Andrews		
Symms		
Kasten		
Gorton		
Danforth		
Chiles		
Hollings		
Johnston		
Sasser		
Hart		
Metzenbaum		
Riegle		
Moynihan		
Exon		
Lautenberg		

6. Danforth motion to set totals in Function 250, General Science, Space and Technology at:

	1985	1986	1987	1988
Budget Authority	9.1	9.6	9.7	10.0
Outlays	8.7	9.3	9.4	9.7

Motion rejected: 5 Yeas 14 Nays

Yeas:
Hatch
Kasten
Gorton
Danforth
Moynihan

Nays:
Domenici
Armstrong
Kassebaum
Boschwitz
Andrews
Symms
Quayle
Chiles
Hollings
Johnston
Sasser
Metzenbaum
Riegle
Lautenberg

Not voting:
Grassley
Hart
Exon

7. Chiles motion to set totals in Function 250, General Science, Space and Technology at:

	1985	1986	1987	1988
Budget Authority	9.1	9.4	9.2	9.3
Outlays	8.7	9.2	9.1	9.2

Motion rejected: 10 Yeas 11 Nays

Yeas:
Kassebaum
Hatch
Kasten
Gorton
Danforth
Chiles
Johnston
Sasser
Hart
Moynihan

Nays:
Domenici
Armstrong
Boschwitz
Andrews
Symms
Grassley
Quayle
Hollings
Metzenbaum
Riegle
Lautenberg

Not voting: Exon

8. Domenici motion to set totals in Function 250, General Science, Space and Technology at:

	1985	1986	1987	1988
Budget Authority	9.1	8.9	9.0	9.2
Outlays	8.7	8.8	8.9	9.0

Motion agreed to by voice vote.

9. Metzenbaum motion to set totals in Function 270, Energy at:

	1985	1986	1987	1988
Budget Authority	1.9	6.0	6.3	6.2
Outlays	6.9	6.0	5.7	5.5

Motion rejected: 2 Yeas 20 Nays

Yeas:	Nays:
Metzenbaum	Domenici
Riegle	Armstrong
	Kassebaum
	Boschwitz
	Hatch
	Andrews
	Symms
	Grassley
	Kasten
	Quayle
	Gorton
	Danforth
	Chiles
	Hollings
	Johnston
	Sasser
	Hart
	Moynihan
	Exon
	Lautenberg

10. Johnston motion to set totals in Function 270, Energy at:

	1985	1986	1987	1988
Budget Authority	1.9	6.1	6.5	6.4
Outlays	6.9	6.1	6.0	5.9

Motion rejected: 11 Yeas 11 Nays

Yeas:	Nays:
Hatch	Domenici
Andrews	Armstrong
Grassley	Kassebaum
Chiles	Boschwitz
Hollings	Symms
Johnston	Kasten
Sasser	Quayle
Hart	Gorton
Riegle	Danforth
Exon	Metzenbaum
Lautenberg	Moynihan

11. Boschwitz motion to set totals in Function 270, Energy at:

	1985	1986	1987	1988
Budget Authority	1.6	5.7	5.3	4.5
Outlays	6.5	5.5	4.9	4.0

Motion rejected: 9 Yeas 13 Nays

Yeas:	Nays:
Armstrong	Domenici
Kassebaum	Andrews
Boschwitz	Grassley
Hatch	Danforth
Symms	Chiles
Kasten	Johnston
Quayle	Sasser
Gorton	Hart
Hollings	Metzenbaum
	Riegle
	Moynihan
	Exon
	Lautenberg

12. Boschwitz motion to set totals in Function 270, Energy (on reconsideration) at:

	1985	1986	1987	1988
Budget Authority	1.6	5.7	5.3	4.5
Outlays	6.5	5.5	4.9	4.0

Motion rejected: 11 Yeas 11 Nays

Yeas:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Symms
Kasten
Quayle
Gorton
Danforth
Hollings

Nays:
Andrews
Grassley
Chiles
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

13. Johnston motion to set totals in Function 270, Energy (on reconsideration) at:

	1985	1986	1987	1988
Budget Authority	1.9	6.1	6.5	6.4
Outlays	6.9	6.1	6.0	5.9

Motion agreed to: 14 Yeas 8 Nays

Yeas:
Kassebaum
Hatch
Andrews
Grassley
Chiles
Hollings
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

Nays:
Domenici
Armstrong
Boschwitz
Symms
Kasten
Quayle
Gorton
Danforth

14. Lautenberg motion to set totals in Function 300, Natural Resources and Environment at:

	1985	1986	1987	1988
Budget Authority	12.6	13.7	13.8	14.0
Outlays	13.1	13.2	13.4	13.7

Motion rejected: 7 Yeas 15 Nays

Yeas:
Chiles
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Lautenberg

Nays:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Andrews
Symms
Grassley
Kasten
Quayle
Gorton
Danforth
Hollings
Johnston
Exon

15. Hollings motion to set totals in Function 300, Natural Resources and Environment at:

	1985	1986	1987	1988
Budget Authority	12.6	13.0	13.1	13.3
Outlays	13.0	13.0	12.9	13.1

Motion agreed to: 13 Yeas 9 Nays

Yeas:
Andrews
Grassley
Kasten
Chiles
Hollings
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

Nays:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Symms
Quayle
Gorton
Danforth

16. Domenici motion to set totals in Function 350, Agriculture at:

	1985	1986	1987	1988
Budget Authority	24.7	14.0	15.2	11.2
Outlays	21.0	11.6	11.6	8.0

Motion rejected: 9 Yeas 13 Nays

Yeas:
Domenici
Armstrong
Hatch
Symms
Quayle
Danforth
Metzenbaum
Moynihan
Lautenberg

Nays:
Kassebaum
Boschwitz
Andrews
Grassley
Kasten
Gorton
Chiles
Hollings
Johnston
Sasser
Hart
Riegle
Exon

17. Grassley motion to set totals in Function 350, Agriculture at:

	1985	1986	1987	1988
Budget Authority	24.8	20.4	20.8	20.9
Outlays	21.0	17.6	19.8	20.2

Motion rejected: 6 Yeas 16 Nays

Yeas:
Andrews
Grassley
Kasten
Hollings
Sasser
Riegle

Nays:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Symms
Quayle
Gorton
Danforth
Chiles
Johnston
Hart
Metzenbaum
Moynihan
Exon
Lautenberg

18. Exon motion to set totals for Function 350, Agriculture at:

	1985	1986	1987	1988
Budget Authority	24.8	20.4	20.2	19.7
Outlays	21.0	17.6	19.1	18.9

Motion agreed to: 14 Yeas 8 Nays

Yeas:
Kassebaum
Boschwitz
Andrews
Grassley
Kasten
Gorton
Chiles
Hollings
Johnston
Sasser
Hart
Metzenbaum
Riegle
Exon

Nays:
Domenici
Armstrong
Hatch
Symms
Quayle
Danforth
Moynihan
Lautenberg

19. Sasser/Chiles motion to set totals for Function 370, Commerce and Housing Credit at:

	1985	1986	1987	1988
Budget Authority	12.6	9.5	10.1	10.5
Outlays	5.6	5.1	5.6	7.4

Motion rejected: 8 Yeas 11 Nays

Yeas:
Andrews
Chiles
Hollings
Sasser
Riegle
Moynihan
Exon
Lautenberg

Nays:
Domenici
Armstrong
Boschwitz
Hatch
Symms
Grassley
Kasten
Quayle
Gorton
Danforth
Metzenbaum

Not voting:
Kassebaum
Johnston
Hart

20. Boschwitz motion to set totals in Function 370, Commerce and Housing Credit at:

	1985	1986	1987	1988
Budget Authority	12.6	7.6	8.1	9.6
Outlays	5.6	3.5	3.8	6.5

Motion rejected: 8 Yeas 11 Nays

Yeas:	Nays:	Not voting:
Boschwitz	Domenici	Kassebaum
Andrews	Armstrong	Johnston
Grassley	Hatch	Hart
Kasten	Symms	
Gorton	Quayle	
Chiles	Danforth	
Sasser	Hollings	
Exon	Metzenbaum	
	Riegle	
	Moynihan	
	Lautenberg	

21. Armstrong motion to set totals in Function 370, Commerce and Housing Credit at:

	1985	1986	1987	1988
Budget Authority	12.6	7.1	4.4	4.9
Outlays	5.6	2.8	0.7	2.5

Motion agreed to: 10 Yeas 9 Nays

Yeas:	Nays:	Not voting:
Domenici	Andrews	Kassebaum
Armstrong	Grassley	Johnston
Boschwitz	Kasten	Hart
Hatch	Chiles	
Symms	Hollings	
Quayle	Sasser	
Gorton	Riegle	
Danforth	Exon	
Metzenbaum	Lautenberg	
Moynihan		

22. Moynihan motion to set totals in Function 400, Transportation at:

	1985	1986	1987	1988
Budget Authority	29.6	28.7	30.2	30.7
Outlays	26.1	26.7	28.2	27.2

Motion rejected: 10 Yeas 10 Nays

Yeas:	Nays:	Not voting:
Andrews	Domenici	Johnston
Grassley	Armstrong	Hart
Chiles	Kassebaum	
Hollings	Boschwitz	
Sasser	Hatch	
Metzenbaum	Symms	
Riegle	Kasten	
Moynihan	Quayle	
Exon	Gorton	
Lautenberg	Danforth	

23. Gorton motion to set totals in Function 400, Transportation at:

	1985	1986	1987	1988
Budget Authority	29.6	28.3	29.3	29.6
Outlays	26.1	26.2	27.8	27.9

Motion rejected: 7 Yeas 13 Nays

Yeas:	Nays:	Not voting:
Domenici	Armstrong	Johnston
Kassebaum	Hatch	Hart
Boschwitz	Andrews	
Kasten	Symms	
Quayle	Grassley	
Gorton	Danforth	
Metzenbaum	Chiles	
	Hollings	
	Sasser	
	Riegle	
	Moynihan	
	Exon	
	Lautenberg	

24. Domenici motion to set totals in Function 400, Transportation at:

	1985	1986	1987	1988
Budget Authority	29.6	24.7	25.3	24.9
Outlays	26.1	25.0	25.8	25.1

Motion rejected: 7 Yeas 13 Nays

Yeas:
Domenici
Armstrong
Boschwitz
Hatch
Symms
Gorton
Danforth

Nays:
Kassebaum
Andrews
Grassley
Kasten
Quayle
Chiles
Hollings
Sasser
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

Not voting:
Johnston
Hart

March 7, 1985

25. Moynihan motion to set totals in Function 400, Transportation (on reconsideration) at:

	1985	1986	1987	1988
Budget Authority	29.6	28.7	30.2	30.7
Outlays	26.1	26.7	28.2	27.2

Motion agreed to: 13 Yeas 9 Nays

Yeas:
Kassebaum
Andrews
Grassley
Chiles
Hollings
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

Nays:
Domenici
Armstrong
Boschwitz
Hatch
Symms
Kasten
Quayle
Gorton
Danforth

26. Riegle motion to set totals in Function 450, Community and Regional Development at:

	1985	1986	1987	1988
Budget Authority	8.4	8.0	8.3	8.8
Outlays	8.7	8.3	8.2	8.6

Motion agreed to: 11 Yeas 8 Nays

Yeas:	Nays:	Not voting:
Andrews	Domenici	Symms
Grassley	Armstrong	Johnston
Kasten	Kassebaum	Hart
Chiles	Boschwitz	
Hollings	Hatch	
Sasser	Quayle	
Metzenbaum	Gorton	
Riegle	Danforth	
Moynihan		
Exon		
Lautenberg		

27. Moynihan motion to set totals in Function 500, Education, Training, Employment, and Social Services at:

	1985	1986	1987	1988
Budget Authority	31.9	32.3	33.5	34.4
Outlays	30.3	31.3	32.4	33.4

Motion rejected: 6 Yeas 15 Nays

Yeas:	Nays:	Not voting:
Hart	Domenici	Symms
Metzenbaum	Armstrong	
Riegle	Kassebaum	
Moynihan	Boschwitz	
Exon	Hatch	
Lautenberg	Andrews	
	Grassley	
	Kasten	
	Quayle	
	Gorton	
	Danforth	
	Chiles	
	Hollings	
	Johnston	
	Sasser	

28. Chiles motion to set totals in Function 500, Education, Training, Employment and Social Services at:

	1985	1986	1987	1988
Budget Authority	31.9	31.9	32.5	33.4
Outlays	30.6	31.2	31.9	32.8

Motion agreed to: 11 Yeas 10 Nays

Yeas:	Nays:	Not voting:
Grassley	Domenici	Symms
Chiles	Armstrong	
Hollings	Kassebaum	
Johnston	Boschwitz	
Sasser	Hatch	
Hart	Andrews	
Metzenbaum	Kasten	
Riegle	Quayle	
Moynihan	Gorton	
Exon	Danforth	
Lautenberg		

29. Hollings motion to set totals in Function 550, Health at:

	1985	1986	1987	1988
Budget Authority	33.6	36.0	38.6	41.3
Outlays	33.5	35.8	38.3	40.9

Motion agreed to: 15 Yeas 6 Nays

Yeas:	Nays:	Not voting:
Kassebaum	Domenici	Symms
Hatch	Armstrong	
Andrews	Boschwitz	
Grassley	Quayle	
Kasten	Gorton	
Chiles	Danforth	
Hollings		
Johnston		
Sasser		
Hart		
Metzenbaum		
Riegle		
Moynihan		
Exon		
Lautenberg		

30. Chiles motion to set totals in Function 570, Medical Insurance at:

	1985	1986	1987	1988
Budget Authority	71.8	81.6	90.3	93.2
Outlays	65.2	69.0	75.6	84.0

Motion agreed to: 20 Yeas 0 Nays

Yeas:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Andrews
Grassley
Kasten
Gorton
Danforth
Chiles
Hollings
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

Nays: 0

Not voting:
Symms
Quayle

31. Moynihan motion to set totals in Function 650, Social Security at:

	1985	1986	1987	1988
Budget Authority	195.5	207.2	224.8	264.6
Outlays	189.3	200.8	214.1	228.4

Motion rejected: 8 Yeas 13 Nays

Yeas:
Kasten
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Lautenberg

Nays:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Andrews
Grassley
Quayle
Gorton
Danforth
Chiles
Hollings
Exon

Not voting: Symms

32. Hollings motion to set totals in Function 650, Social Security at:

	1985	1986	1987	1988
Budget Authority	196.0	206.5	222.3	259.8
Outlays	189.3	196.3	206.7	219.1

Motion rejected: 3 Yeas 18 Nays

Yeas:
Andrews
Hollings
Exon

Nays:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Grassley
Kasten
Quayle
Gorton
Danforth
Chiles
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Lautenberg

Not voting: Symms

33. Domenici motion to set totals in Function 650, Social Security at:

	1985	1986	1987	1988
Budget Authority	195.5	207.9	225.9	266.7
Outlays	189.3	194.9	206.0	220.1

Motion rejected: 9 Yeas 12 Nays

Yeas:
Domenici
Armstrong
Kassebaum
Boschwitz
Quayle
Gorton
Danforth
Hollings
Exon

Nays:
Hatch
Andrews
Grassley
Kasten
Chiles
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Lautenberg

Not voting: Symms

34. Moynihan motion to set totals in Function 650, Social Security (on reconsideration) at:

	1985	1986	1987	1988
Budget Authority	195.5	207.2	224.8	264.6
Outlays	189.3	200.8	214.1	228.4

Motion rejected: 9 Yeas 12 Nays

Yeas:	Nays:	Not voting:
Kasten	Domenici	Symms
Quayle	Armstrong	
Johnston	Kassebaum	
Sasser	Boschwitz	
Hart	Hatch	
Metzenbaum	Andrews	
Riegle	Grassley	
Moynihan	Gorton	
Lautenberg	Danforth	
	Chiles	
	Hollings	
	Exon	

35. Chiles motion to set totals in Function 600, Income Security at:

	1985	1986	1987	1988
Budget Authority	163.7	159.3	168.3	177.3
Outlays	128.9	122.5	128.7	135.0

Motion agreed to: 14 Yeas 6 Nays

Yeas:	Nays:	Not voting:
Boschwitz	Domenici	Symms
Andrews	Armstrong	Quayle
Kasten	Kassebaum	
Gorton	Hatch	
Chiles	Grassley	
Hollings	Danforth	
Johnston		
Sasser		
Hart		
Metzenbaum		
Riegle		
Moynihan		
Exon		
Lautenberg		

36. Chiles motion to set totals in Function 700, Veterans Affairs at:

	1985	1986	1987	1988
Budget Authority	27.2	27.4	27.9	28.4
Outlays	26.3	26.9	27.5	28.1

Motion agreed to: 14 Yeas 6 Nays

Yeas:	Nays:	Not voting:
Kassebaum	Domenici	Symms
Andrews	Armstrong	Quayle
Grassley	Boschwitz	
Kasten	Hatch	
Chiles	Gorton	
Hollings	Danforth	
Johnston		
Sasser		
Hart		
Metzenbaum		
Riegle		
Moynihan		
Exon		
Lautenberg		

37. Domenici motion to set totals in Function 750, Administration of Justice at:

	1985	1986	1987	1988
Budget Authority	6.6	6.7	7.0	7.0
Outlays	6.4	6.7	6.9	7.0

Motion agreed to by voice vote.

March 12, 1985

38. Sasser/Gorton motion to set totals in Function 800, General Government at:

	1985	1986	1987	1988
Budget Authority	5.7	5.8	5.8	6.0
Outlays	5.8	5.7	5.7	6.0

Motion agreed to: 15 Yeas 6 Nays

Yeas:
Boschwitz
Andrews
Grassley
Kasten
Gorton
Chiles
Hollings
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moyniahn
Exon
Lautenberg

Nays:
Domenici
Armstrong
Hatch
Symms
Quayle
Danforth

Not voting: Kassebaum

39. Quayle motion to set totals in Function 850, General Purpose Fiscal Assistance at:

	1985	1986	1987	1988
Budget Authority	6.4	1.9	2.0	2.1
Outlays	6.4	1.9	2.0	2.1

Motion rejected: 5 Yeas 17 Nays

Yeas:
Domenici
Boschwitz
Hatch
Symms
Quayle

Nays:
Armstrong
Kassebaum
Andrews
Grassley
Kasten
Gorton
Danforth
Chiles
Hollings
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

40. Exon motion to set totals in Function 850, General Purpose Fiscal Assistance at:

	1985	1986	1987	1988
Budget Authority	6.4	6.5	2.0	2.1
Outlays	6.4	6.5	3.1	2.1

Motion agreed to: 13 Yeas 9 Nays

Yeas:	Nays:
Domenci	Andrews
Armstrong	Grassley
Kassebaum	Kasten
Boschwitz	Johnston
Hatch	Sasser
Symms	Metzenbaum
Quayle	Riegle
Gorton	Moynihan
Danforth	Lautenberg
Chiles	
Hollings	
Hart	
Exon	

41. Hollings motion to set totals in Function 920, Allowances at:

	1985	1986	1987	1988
Budget Authority	0.3	-0.9	-1.7	-1.6
Outlays	0.3	-0.9	-1.8	-1.7

Motion agreed to: 14 Yeas 8 Nays

Yeas:	Nays:
Domenici	Quayle
Armstrong	Gorton
Kassebaum	Danforth
Boschwitz	Sasser
Hatch	Hart
Andrews	Riegle
Symms	Moynihan
Grassley	Lautenberg
Kasten	
Chiles	
Hollings	
Johnston	
Metzenbaum	
Exon	

42. Domenici motion to set totals in Function 950, Undistributed Offsetting Receipts at:

	1985	1986	1987	1988
Budget Authority	-32.4	-34.7	-36.8	-39.2
Outlays	-32.4	-34.7	-36.8	-39.2

Motion agreed to by unanimous consent.

43. Hollings motion to set totals in Revenues at:

	1985	1986	1987	1988
Revenues	736.2	821.7	921.5	1,026.1

Motion rejected: 4 Yeas 18 Nays

Yeas:	Nays:
Andrews	Domenici
Hollings	Armstrong
Metzenbaum	Kassebaum
Exon	Boschwitz
	Hatch
	Symms
	Grassley
	Kasten
	Quayle
	Gorton
	Danforth
	Chiles
	Johnston
	Sasser
	Hart
	Riegle
	Moynihan
	Lautenberg

44. Metzenbaum motion to set totals in Revenues at:

	1985	1986	1987	1988
Revenues	736.2	802.1	880.1	971.5

Motion rejected: 4 Yeas 16 Nays

Yeas:	Nays:	Voting Present:
Hollings	Domenici	Kassebaum
Hart	Armstrong	Grassley
Metzenbaum	Boschwitz	
Exon	Hatch	
	Andrews	
	Symms	
	Kasten	
	Quayle	
	Gorton	
	Danforth	
	Chiles	
	Johnston	
	Sasser	
	Riegle	
	Moynihan	
	Lautenberg	

45. Domenici motion to set totals in Revenues at:

	1985	1986	1987	1988
Revenues	736.2	792.7	864.3	952.5

Motion agreed to: 12 Yeas 7 Nays

Yeas:	Nays:	Voting Present:
Domenici	Chiles	Kassebaum
Armstrong	Hollings	Andrews
Boschwitz	Hart	Grassley
Hatch	Metzenbaum	
Symms	Moynihan	
Kasten	Exon	
Quayle	Lautenberg	
Gorton		
Danforth		
Johnston		
Sasser		
Riegle		

March 13, 1985

46. Moynihan/Lautenberg overall budget plan:

	1985	1986	1987	1988
Outlays	943	935	996	1,044
Revenue	736	793	864	953
Deficit	-207	-142	-132	-91

Motion rejected: 4 Yeas 18 Nays

Yeas:
Sasser
Moynihan
Exon
Lautenberg

Nays:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Andrews
Symms
Grassley
Kasten
Quayle
Gorton
Danforth
Chiles
Hollings
Johnston
Hart
Metzenbaum
Riegle

47. Exon (Reagan) overall budget plan:

	1985	1986	1987	1988
Outlays	959.1	973.7	1,026.6	1,094.8
Revenue	736.9	793.7	861.7	950.4
Deficit	-222.2	-180.0	-164.9	-144.4

Exon plan as estimated with CBO baseline:

	1985	1986	1987	1988
Outlays	950.3	975.3	1,039.2	1,120.3
Revenue	735.2	789.0	854.7	934.2
Deficit	-215.1	-186.4	-184.6	-186.1

Motion rejected: 4 Yeas 17 Nays

Yeas:	Nays:	Voting Present:
Boschwitz	Domenici	Exon
Hatch	Armstrong	
Symms	Kassebaum	
Quayle	Andrews	
	Grassley	
	Kasten	
	Gorton	
	Danforth	
	Chiles	
	Hollings	
	Johnston	
	Sasser	
	Hart	
	Metzenbaum	
	Riegle	
	Moynihan	
	Lautenberg	

48. Symms overall budget plan:

	1985	1986	1987	1988
Outlays	949.5	956.7	988.9	1,019.2
Revenue	736.2	793.0	863.9	951.9
Deficit	-213.3	-163.7	-125.0	-67.3

Motion rejected: 4 Yeas 18 Nays

Yeas: Domenici
Armstrong
Symms
Grassley

Nays: Kassebaum
Boschwitz
Hatch
Andrews
Kasten
Quayle
Gorton
Danforth
Chiles
Hollings
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

49. Hollings/Andrews overall budget plan:

	1985	1986	1987	1988
Outlays	950	977	1,023	1,073
Revenue	736	822	922	1,026
Deficit	-213	-155	-101	-47

Motion rejected: 4 Yeas 18 Nays

Yeas: Kassebaum
Andrews
Hollings
Exon

Nays: Domenici
Armstrong
Boschwitz
Hatch
Symms
Grassley
Kasten
Quayle
Gorton
Danforth
Chiles
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Lautenberg

50. Domenici overall budget plan:

	1985	1986	1987	1988
Outlays	948.5	966.1	1,011.5	1,058.0
Revenue	736.2	793.8	866.6	956.2
Deficit	-212.3	-172.3	-144.9	-101.8

Motion agreed to: 11 Yeas 9 Nays

Yeas:	Nays:	Voting Present:
Domenici	Chiles	Grassley
Armstrong	Hollings	Exon
Kassebaum	Johnston	
Boschwitz	Sasser	
Hatch	Hart	
Andrews	Metzenbaum	
Symms	Riegle	
Kasten	Moynihan	
Quayle	Lautenberg	
Gorton		
Danforth		

March 14, 1985

51. Chiles motion to reconcile only direct spending:

Motion rejected: 10 Yeas 12 Nays

Yeas:
Chiles
Hollings
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

Nays:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Andrews
Symms
Grassley
Kasten
Quayle
Gorton
Danforth

52. Reconciliation:

Motion agreed to: 11 Yeas 10 Nays

Yeas:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Andrews
Symms
Kasten
Quayle
Gorton
Danforth

Nays:
Chiles
Hollings
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

Voting Present: Grassley

53. Johnston proposal to strike language regarding cap on nondefense discretionary spending:

Motion rejected: 10 Yeas 12 Nays

Yeas:
Andrews
Chiles
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

Nays:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Symms
Grassley
Kasten
Quayle
Gorton
Danforth
Hollings

54. Domenici cap / cap on defense:

Motion agreed to: 21 Yeas 1 Nay

Yeas:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Andrews
Symms
Grassley
Kasten
Quayle
Gorton
Danforth
Hollings
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

Nay: Chiles

55. Domenici cap / nondefense discretionary:

Motion agreed to: 13 Yeas 9 Nays

Yeas: Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Andrews
Symms
Grassley
Kasten
Quayle
Gorton
Danforth
Hollings

Nays: Chiles
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

56. Kasten second degree to Hart-Metzenbaum:

Motion agreed to by voice vote.

57. Hart-Metzenbaum language on tax reform as modified:

Motion agreed to: 10 Yeas 7 Nays

Yeas: Hatch
Andrews
Kasten
Quayle
Gorton
Chiles
Sasser
Hart
Metzenbaum
Lautenberg

Nays: Domenici
Boschwitz
Symms
Grassley
Danforth
Hollings
Johnston

Not voting: Armstrong
Kassebaum
Riegle
Moynihan
Exon

58. Hatch scorekeeping:

Motion agreed to by unanimous consent.

59. Motion to adopt Chairman's recommendation on miscellaneous provisions and authorize staff technical corrections:

Motion agreed to by voice vote.

60. Final vote to Report to Senate:

Motion agreed to: 11 Yeas 10 Nays

Yeas:
Domenici
Armstrong
Kassebaum
Boschwitz
Hatch
Andrews
Symms
Kasten
Quayle
Gorton
Danforth

Nays:
Chiles
Hollings
Johnston
Sasser
Hart
Metzenbaum
Riegle
Moynihan
Exon
Lautenberg

Voting Present: Grassley

ADDITIONAL VIEWS OF SENATOR RUDY BOSCHWITZ

Predictions, Predictions. Who cares? Are we saving $55 billion as the Republicans argue or $41 billion as the Democrats maintain? It all depends on whose predictions you take of what will happen in the future. Everybody's predictions we rely on have been wrong in the past. It's no wonder their results are all over the lot now.

So what do I care about baselines, current policy or current law as they are all projected into the future? Don't bore me.

I'm just a businessman turned Senator and what I really want to know is what are we doing about controlling the overhead—government spending.

In this budget (and note that this first budget resolution has been crafted so that it automatically becomes the second) spending by government rises by *less than 2 percent.* Spending goes from $948 billion to $966 billion.

If the expenses in my home or business were to rise only 2 percent next year, and I had taken steps through my budget process to assure that result (hooray for reconciliation!) I could be confident that both in my business and my home I'd be making financial progress.

Contrast a 2-percent spending growth to the 18 percent that occurred the first year I labored through one of these markups in 1979. (They took weeks and weeks back then, but Chairman Domenici set lots of goals including time and stuck to them all.)

Contrast an under 2 percent spending growth with an average of 11 percent annual expense growth—the average of my first 6 years on the Budget Committee.

So we've made some real progress in my mind.

How about income? Forget about projections there as well. In the last 25 years the average government income growth has been 10 percent—more during periods of recovery.

So any time the Senate can hold spending down to a 2-percent increase, we've got one hell of a good budget.

Rudy Boschwitz.

ADDITIONAL VIEWS OF SENATOR STEVEN D. SYMMS

In my fourth year as a participant in the annual budgeting process of the Senate Budget Committee, I remain deeply disturbed by the fact that Americans now have considerably more, but not necessarily better, government, and no prospects for a balanced budget within the next 4 years. Considering that President Reagan campaigned in 1980 on the promise of a balanced budget, as have many of his predecessors in office, Americans are rightfully questioning, "What went wrong?".

THE REAGAN AGENDA AND ITS REVERSAL

Upon the President's assumption to office in 1981, Congress was urged to enact three major legislative items: (1) across-the-board tax cuts, to stimulate savings and investment and to encourage economic expansion and job creation, (2) domestic spending restraint, and (3) a defense modernization program to rebuild our armed forces after a decade of wholesale neglect. The President achieved some truly amazing early successes—the requested tax cuts and tax indexing passed, two major victories for the working population. Indexing was the major contribution of the Reagan Presidency towards fairness in the tax code, since it prohibited Congress from profiting secretively from inflation; as bracket creep pushed taxpayers into higher brackets, increased revenues allowed Congress to finance more social spending. But the economic recession of 1981, the inevitable legacy from the Carter years of stagflation, Federal tax growth at its highest rate in history, and a too tight monetary policy inflicted by the Federal Reserve, caused the Administration to deviate from its sound economic policy. Reaganomics was, for the moment, abandoned.

Since 1981, the Administration succumbed to a number of proposals which increased the tax burden on the American people. The Kemp-Roth tax cuts were changed to a 5–10–10 formula, and delayed. Then they were delayed again. The major tax hike of the President's first term, TEFRA, passed, along with a social security hike, in 1982. A gasoline tax was enacted in December 1982, and last, TEFRA II was passed as yet another "deficit reduction" measure. Defying all Washington remedies, the deficit persisted.

Woody Hayes, the legendary football coach, once lectured to one of his classes that the United States had been in 10 wars, eight of which we had won, one of which we tied and one lost. Coach Hayes noted that "Now 8–1–1 is not a bad record, but I don't like the trend." Similarly, there was cause for concern about the record of the Administration in its willingness to accept tax increases under the guise of "deficit reduction." To date, what the Congress delivered is tax increases that have virtually eliminated the gains from the 1981 across-the-board cuts; spending restraint only in the nondefense discretionary category, but not in the real budget-busters, the entitlements, and only a modest defense program that has not redressed the serious imbalance of our forces with respect to our Soviet and Warsaw Pact adversaries.

ROOT CAUSE OF THE DEFICIT: PROFLIGATE SPENDING

A common fallacy, bought by many in Congress, that the widening deficit is crowding out private borrowers and driving up interest rates, helps fuel the tax advocates. Widely ignored by those who believe Americans should never have been granted the Reagan tax cuts is the fact that the public now carries the highest tax load in history, with 20 percent of the GNP taxed away at the national level. With State and local taxation included, the burden exceeds 40 percent of GNP. The real measure of "crowding out" is the amount of Government spending combined with the amount of Government borrowing, and there is far too much of both for the continued health of the economy.

Fortunately, the American people increasingly recognize the real culprit in the Federal spending spree, and they do not blame the President. If there was a single message to the elected last November, it was that Government is excessive and wasteful, and that spending should be controlled, not taxes increased. The central election theme of 1980, that spendthrift, vote-buying policies plagued this country with record inflation and high interest rates, and that the American people know better than their Government how to spend the money they have earned, was overwhelmingly reapproved.

Following November's elections, an early spirit in the Congress signaled that perhaps this year would be markedly different, that the House and Senate would go beyond merely reducing the rate of growth in programs, and actually cut spending. But while many Senators and Representatives campaigned successfully on the importance of handling the deficit, without advocating tax increases as the cure, once the President's budget was announced, the momentum for spending cuts abruptly halted. Special interest groups, those profiting the most from programs created for their benefit, launched their annual campaign against deficit reduction by spending cuts, pouring telegrams into congressional offices, and jamming switchboards with calls in opposition to spending cut proposals. It was all too evident that many in Congress only believed in spending control in the abstract.

Although some politicians frequently single out defense spending as the primary reason for the deficit, the Defense Department is not the problem. In 1965, domestic spending accounted for 10.1 percent of GNP, while in 1983, it stood at 16.9 percent of GNP, while defense decreased in those same years from 7.7 percent of GNP to

6.5 percent. Unlike defense spending, which is justified as the fundamental responsibility of the Federal Government, a myriad of programs are now funded at the national level which do not benefit specifically the poor, the disabled, or the poverty-stricken elderly in our society. Most entitlement programs today are not based on individual need or on poverty statistics. Intended as income security programs, they have been transformed by politicians into massive income redistributers, with bonanzas for those on the receiving end, and burdensome taxation on those wage earners who doubt that future benefits will match their present input. Seventy-five percent of income security programs now finances retirement programs today, while only one-sixth of all the money spent on entitlements is for "means-tested" programs, or those aimed at helping the poor. It is those programs on auto-pilot that present the greatest challenge to Congress.

THE INSTITUTION OF THE COLA

Historically, the New Deal is often cited for implanting the anticapitalist notion that the Government is the best resolver of social and economic ills, and indeed, many new agencies of Government were instituted in the New Deal era. But the real "marker" of explosive budget growth could well be the institution of the COLA, or cost-of-living adjustment which Congress tied to many social programs. The Budget Committee counts over 80 Federal programs linked to an index such as the CPI, or Consumer Price Index.

COLA's were devised to increase payments automatically to individuals as the cost of living rose, to keep Federal income checks in pace with inflation. COLA's were tied to the CPI, or to some other gauge measuring the cost of consumer goods, housing, and wages. The COLA, however, was overgenerous, as the CPI is not a precise measurement of cost of living. To worsen the situation, Congress could not refrain from tampering with "trust funds," and frequently extended benefits, as in social security, to program participants far and above the amount of money they themselves contributed to the program. In social security, benefits increased from 1970 to 1983 by 239 percent, while the Consumer Price Index increased substantially less during that period, by 177 percent, and average wages by 144 percent.

From 1961 to 1981, following the introduction of COLA's in many domestic programs, social spending skyrocketed from $37 billion to $163 billion, from 5.4 percent of the GNP to an incredible 11 percent in just 20 years. The early 1970's witnessed the sharp expansion of existing programs, like social security and AFDC (aid to families with dependent children), and the creation of many new ones, including medicare, medicaid, and food stamps. With the preponderance of new Federal programs, and the growing acceptance of Government as the great provider, the social stigma from accepting welfare payments all but vanished.

With the ratio of privately employed people to transfer payment recipients declining from 5 to 1 in 1950 to 1.3 to 1 in 1983, necessary reform of entitlement programs has become seemingly an insurmountable political task. Voters all too willingly accept prospective payments that will exceed their own contributions to income security programs, passing the burden of costs on to later generations.

REVERSING THE SPENDING BIAS

With the spending bias that has inflicted the Congress, the disintegration of the ethos of limited Government and balanced budgets, and the natural preference of many in our society for the enormous Federal trough rather than competition for earnings in the free market, not to mention the intense pressure upon Members of Congress from powerful lobbying firms expending millions to continue to enhance the special dispensations their clients receive, a solution outside of the realm of Congress appears to be the only realistic alternative.

Education of the public about the dangers of escalating spending is crucial, and much credit should be given to the President for taking that message to the American people. The public increasingly questions the value and effect of many social programs. Rather than helping the needy to become self-sufficient, welfare programs have promoted the institutionalization of poverty. It is important to recognize that levels of poverty depend more upon the performance of the economy than upon the rate of Government social spending. Increases in poverty over the past three decades occurred during the years in which the GNP dropped—in 1954, 1958, 1970, 1974, and 1975. During all the other years, the poverty rate decreased. The solution to poverty has been shown not to be more Federal programs, but rather, a thriving economy with opportunity and employment for all citizens.

More and more Americans realize that the United States has suffered in its transformation from a free society, in which private property rights are respected, to a genuine welfare state, where the producers only have a residual claim to what remains of their earnings after the Federal, State, and local governments have subdivided it among their political constituencies. What happens when the Government redistributes income? People discover that productivity, at least honest productivity, does not pay, and that political activity can be more lucrative than economic activity. Exorbitant rates of taxation promote the expansion of the underground economy, and provide a disincentive for productivity.

REDUCING THE DEFICIT: FISCAL RESTRAINT AND ECONOMIC GROWTH

The best demonstrated means to reduce the deficit is with strong economic growth. From November 1982 through June 1984, 6.7 million jobs were created, the best job creation rate of any 19-month period in history, and civilian unemployment declined from 10.7 percent to 7.1 percent in June of 1984. CBO acknowledged last year that a 2-percentage point sustained increase in the growth of the economy could have brought down the cumulative deficit by $440 billion during 1984–87. A 1-percentage point drop in interest rates for all Government securities at that time could have cut the deficit by $35 billion, while the same percentage drop in unemployment also would have cut the deficit by $35 billion. Congress can promote economic growth and true deficit reduction only through cutting spending, not by raising taxes. The last two times Congress cut taxes, in 1978, when capital gains rates were reduced, and in 1981, when personal tax rates were rolled back, revenues went up substantially. Tax increases, as history has shown, have never reduced the deficit, but have damaged our international competitiveness, and adversely impacted savings and investments, the capital formation necessary for business expansion.

I offered a budget in the Committee, which received a modest four votes, to virtually wipe out the deficit by 1989, without raising revenues, and without detriment to those at the poverty level or dependent on Federal benefit checks. My budget would have mandated a 10-percent across-the-board reduction in the Federal work force, freezing all Federal pay and COLA's for 3 years, exempting means-tested recipients, and cut all nondefense, discretionary programs by 10 percent. My plan would also have eliminated many nonessential agencies and programs which have long been targeted, and rightly so, by President Reagan for termination. While some of these cuts seem hard to swallow, I am convinced that the prospects for long-term economic expansion depend upon such strong measures of budget control, and will ultimately provide many more benefits than these programs do presently. The cuts passed by the Committee are a step in the right direction, but they are meager compared to the cuts that should be made. I intend to fine-tune the budget proposal I proffered in the Committee, and present it to the floor as well.

TWO TOOLS FOR SPENDING CONTROL: BALANCED BUDGET AND LINE-ITEM VETO

One of the most important political developments at the grass roots level is the impending passage of the balanced budget amendment, which only requires two more States' approval. If 34 States adopt the amendment, Congress will be forced to either watch the reins of power shift to the electorate by the call for a constitutional convention, or adopt its own balanced budget amendment. Although Congress infrequently examines initiatives to improve the budget process, the major obstacle to reform is overlooked—the absolute lack of political will in the Congress. The Budget Act of 1974 was deliberately devised for maximum flexibility in budgeting, and it is that largesse that Congress refuses to relinquish. For that reason, prospects for passage of even a trial line-item veto remain remote. The line-item veto, which has been useful to 43 Governors, is under stiff opposition from Congress, which views it as an unwarranted Executive intrusion on the purse string power of the Congress.

The President made an emphatic commitment to veto any budget-busting bills that come to his desk, and I hope his pledge remains, in his words, as "strong as 10 pounds of onions." H.L. Mencken once made a statement to the effect that Frankin Roosevelt thought the Federal Government was a gigantic milch cow with 100 million teats. Americans recognize today that the Federal udder has long surpassed its feeding capacity, and that weaning, no matter how distasteful, is imperative. It is the duty of the recalcitrant Congress to face up to that fact, and exercise fiscal restraint. Ultimately, it is critical that the President exercise his veto power to force the Congress into controlling our spending problem, especially if the balanced budget and line-item veto are not implemented. Despite the howls of protest from privileged constituencies, and their Washington representatives, I am certain the President's budget cuts will be implemented. In addition, I and many of my colleagues, will continue to press for deeper reductions, for greater program efficiency, and for preferrred private solutions to social needs.

STEVEN D. SYMMS.

ADDITIONAL VIEWS OF SENATOR ROBERT W. KASTEN, JR.

The First Budget Resolution for FY 1986 as reported by the Senate Budget Committee is a positive step toward serious deficit reduction. It is a collective Republican effort that will cut $55 billion from the 1986 deficit. The budget calls for real reductions in spending, and demonstrates that Congress is serious about reducing deficits.

There is no question that the large deficits we are facing today require significant action by Congress. We can only get deficits under control by addressing the spending that causes them, and by allowing economic growth to narrow the gap between revenues and outlays.

This budget resolution addresses spending by freezing all areas of the budget and going a little further with $16.8 billion in spending reductions below a freeze level in 1986. To make these spending reductions stick, it applies reconciliation and defense and nondefense caps on appropriation bills.

I believe that a broad-based freeze is the best approach to spending restraint, because it merely requires that all programs maintain the same funding levels as the previous year. Deficit reduction is not limited to any specific area of the budget. It's just that programs will not increase over their current levels.

The Committee budget, for example, freezes both defense spending and cost-of-living adjustments (COLA's) for the 1986 fiscal year. I would not vote for a freeze on one without the other. But, since the overall budget package froze these programs and most others, and in some cases went below a freeze level for others, this vote was fair.

In many ways, the Committee's budget is like the President's budget submission. There is, however, an important difference in that many programs that his budget would have eliminated are continued in this plan, although at a lower level of funding.

I was particularly concerned about the proposed termination of general revenue sharing and urban development block grants. Both of these programs have proven important to the economic expansion of Wisconsin and other States. They help provide jobs, and although the need to reduce the Federal deficit may mean smaller allocations for UDAG's than has been true in recent years, it is important to preserve these programs. The Committee's final budget assumes that these programs will continue, but at lower funding levels.

I was also concerned about provisions in the budget that affect the dairy industry. The budget assumes a dairy price support cut on April 1 and another on July 1. I am opposed to these provisions—they're in current law—and have offered legislation to cancel these reductions. The freeze level adopted by the Committee allows enough flexibility to work out these differences of opinion on various programs, and still allows for reasonable policy.

The flexibility of the freeze also applies to defense. I believe that the cuts in defense should be directed at reducing the fat in the bureaucracy of the Defense Department without affecting American military strength, force posture, or readiness.

Although the budget is not perfect, and has elements that many may have problems accepting, it does seriously reduce the deficit through spending restraint. Nowhere in this budget is there an assumption of "revenue enhancement" as a means to reducing the deficit.

In the past two resolutions, we have assumed increases in taxes as part of the deficit reduction effort, and they haven't worked. In fact, we have seen that they only fuel more spending. Spending for 1985 will be about 25 percent of GNP. In 1980, it was about 23 percent. Revenues over the period have been a constant 19 percent. Clearly, we don't have high deficits because the American people are undertaxed. We have high deficits because Congress spends too much.

I believe that tax increases are the wrong way to reduce the deficits. The resolution adopted by the Committee, focuses on the real reason for the large deficits—too much spending. And, although I may not agree with some of the specifics on some of the spending cuts, I do agree that reducing spending by $55 billion in 1986 is a tremendous achievement.

The Committee rejected tax increase after tax increase, and instead called for tax reform "as soon as possible." Clearly revenue neutral tax reform, which will provide incentives for work, saving, investment, and enhanced economic growth, will do more for deficit reduction than tax increases.

With both spending restraint, and economic growth, we will be able to get the deficits under control. This budget resolution sets Congress on the path toward significant deficit reduction. Although it may change before it's final adoption, I believe that it is a good blueprint from which to work.

Robert W. Kasten, Jr.

ADDITIONAL VIEWS OF SENATOR DAN QUAYLE

I believe that the strategic interests of this Nation recommend a higher growth in defense spending than the 0, 3, 3 real growth pattern mandated by the Senate Budget Committee. I personally believe that the Congress should adopt a 3-year defense plan of 4 percent annual real growth. It should be pointed out that this resolution, with 0, 3, 3 real defense growth, is fraught with national security risks. I supported this resolution, however, on the contingency that the Congress adopt in full the nondefense spending cuts recommended by the Committee. I wholeheartedly endorse the nondefense spending goals set by this Committee which, I believe, represent a bold and courageous step to meet the economic needs of this country. I will support the Committee's intent for $297 billion in deficit reduction because we must adopt a package that brings Federal deficits down to 2 percent of GNP and total spending down to 21.5 percent of GNP by FY 1988 without any tax increases. I must reiterate, however, that if the Congress endangers America's economic security by backing down on any of its nondefense spending cuts I will find it my duty to press for increased military security through higher defense spending.

Unlike other parts of our budget, defense spending is unique in that it is the only part of the U.S. budget determined solely by factors external to our Nation. With the bipartisan support of Congress and the American people, we have begun redressing the neglect of the 1970's and restoring our Nation's strength, confidence and position of leadership in the world. The continuing Soviet military buildup as well as the growing menace of international terrorism, regional instabilities, and geopolitical uncertainties dictate that the United States sustain the efforts made over the past 4 years to rebuild our military posture.

In the absence of any clear evidence that threats to our national interests have diminished, this Committee has chosen to freeze in 1986 our commitment to national defense. We are all well aware that the budget deficit is an extremely important issue which must be addressed responsibly and with dispatch. If, however, in the face of budgetary pressures we make substantial defense spending reductions, it is possible that our allies will lose confidence in our leadership and our adversaries may lose their incentive to negotiate arms reductions.

I am in general accord with the bipartisan sentiment expressed in this Committee that the national defense function must take its "fair share" of cuts.

Some of us forget that the Reagan defense budget has already been cut substantially. Since March 1981, when the President submitted his first 5-year plan for defense, Congress has cut from the first 4 years of that plan (fiscal years 1982–85) almost $100 billion in outlays and nearly that much in budget authority. The FY 1986 defense budget has been reduced by over $32 billion in budget authority and $57 billion in outlays since the 1981 plan. These cuts are not insignificant, and they reflect a thorough review by the Congress of the President's defense requests.

I fear that most of the "savings" some believe we will achieve in a 0, 3, 3 real growth pattern for defense are illusory. Fiscal year 1986 defense outlays will be little affected by the budget authority cuts made. In addition, cuts of the magnitude mandated by zero growth in FY 1986 will damage our military posture no matter where Congress chooses to make them. If we choose to cut ongoing procurement programs, I can assure my colleagues that such cuts translate into cuts in production levels, which translate to higher unit costs and higher overall program costs. We will end up paying more to get less, and will toss away the benefits recently achieved by the attaiment of more economic production rates across many systems. Should we choose to allocate the cuts to personnel and readiness, we will be taking a dangerous step backward in the training and readiness posture of our forces worldwide.

Clearly, the problem of redressing the current military imbalance with an adversary that still maintains a broader based and more aggressive weapons modernization program is just as persistent today as it has ever been. The foreign, domestic, and economic implications of a widening gap between the relative military capabilities of the United States and the Soviet Union should weigh heavily in our national planning—including that done by this Committee. We should examine very carefully any budget proposal which would adversely affect the accomplishments made over the past 4 years or which would compromise our future ability to deal with potential adversaries from a position of strength. Within the context of the current talks underway in Geneva and the consolidation of power under a new Soviet leader, we must reflect adequately our commitment to national defense.

DAN QUAYLE.

ADDITIONAL VIEWS OF SENATOR SLADE GORTON

The budget resolution adopted by the Committee represents a vast improvement over the budget proposed by the administration 1 month ago. It is both fairer and more effective.

The Committee budget is fairer because it spreads the burden of spending restraint much more broadly than the administration proposed, and does not require discretionary domestic spending to bear almost all of the spending cuts. The Committee recognized reality when it included defense and entitlement budgets in the spending restraint effort. Discretionary nondefense spending now accounts for only approximately 17 percent of total Federal spending; clearly the Committee adopted the only reasonable course when it decided that the balance of the budget must also be included in the deficit reduction effort.

The Committee's budget will also be more effective than that originally proposed by the President at improving our economic outlook. It reduces the deficits to lower levels than did the budget proposed by the President, and sets them on a clearly downward path, starting at 4.1 percent of GNP in 1986 and declining from there.

At the same time, however, I disagree strongly with some of the specific areas in which the Committee has assumed that it will be possible to achieve spending cuts.

THE EXPORT-IMPORT BANK

The Committee's assumptions state that the 150 function figures are predicated upon a reduction in budget authority associated with the Export-Import Bank (Ex-Im) from $3.8 billion to $1.25 billion annually. As the proceedings of the markup made clear, a larger direct lending program for Ex-Im can be accommodated within the 150 function mark adopted by the Committee, provided that other programs within that function share in the spending restrain effort. The Ex-Im Bank performs a critical function, especially at this time of an overvalued dollar and increasingly aggressive foreign government subsidies of export trade. Furthermore, there is clearly broad and bipartisan support for the Ex-Im Bank, and I will continue to press for a larger direct lending program for the bank.

RURAL HOUSING

The Committee's function 370 mark assumes the termination of the Farmers Home Administration rural housing assistance program. I do not believe that this program should be terminated. A revision in the program's structure, from direct lending to subsidized private lending with loan guarantees, could accomplish substantial deficit reduction while preserving assistance to low- and moderate-income rural housing. If the rural housing program is eliminated it will be very difficult to find replacement funding from other sources, and I believe that the Banking Committee will be compelled to look elsewhere for savings sufficient to meet this reconciliation instruction.

IMPACT AID

The Committee's function 500 assumptions include the termination of educational Impact Aid on behalf of the so-called "Part B" children. As I stated during Committee consideration of this function, the modest savings associated with termination of the Impact Aid Part B program can more readily be accommodated in other areas of the budget, and I believe that Congress should resist efforts to eliminate funding that is vital to federally impacted school districts throughout the country.

NUTRITION PROGRAMS

The Committee's report contains assumptions with respect to two nutrition programs that I believe are unnecessary. First, the Committee assumes the termination of the upper income school lunch subsidy component. A superficial explanation of this provision makes it sound like a reasonable proposal. A more in-depth analysis, however, reveals that the termination of this subsidy could have secondary effects—through the loss of a cross-subsidy from higher income to lower income program beneficiaries, and through the retirement of some districts from the program—that raise serious questions. Therefore, I do not support this assumption.

Second, the Committee's mark assumes the freezing of the women's, infants', and children's (WIC) program at current levels. The WIC program serves some of the most needy members of our society, and I believe that it ought to be permitted an increase at least sufficient to offset inflation, and thus to keep assistance levels constant in real terms.

OTHER PROGRAMS

The assumptions made by the Budget Committee encompass so many programs that it is impossible in a short space to explain completely every difference that I have with each of them. In addition to the items discussed above, however, I have grave reservations about the assumptions the Committee has reported in several other areas, and I wish to make clear that I do not support the policies implicit in these assumptions. At the same time, I recognize that it is incumbent upon one disagreeing with these assumptions to be ready to propose substitute deficit reduction measures of equal magnitude.

I believe that the Committee's assumptions for the way in which deficit reduction is to be achieved are particularly questionable in the areas of medicare and veterans' benefits, although I do believe that savings are possible in those areas. I have suggested, and will continue to suggest, alternative ways of meeting deficit reduction goals in these areas which I believe should be more acceptable to the American people. I also intend to seek changes in the nature of the proposals associated with Federal mass transit assistance, soil and water conservation, and science and research, among others.

The budget resolution reported by the Committee, albeit flawed, is the best package for which it was possible to gain the support of a majority of the Committee's members. Clearly it is a significant improvement over the administration's proposal, and equally clearly, it represents realistic and effective fiscal policy. For these reasons I voted for the package as a whole, but I intend to continue to seek additional changes in the package as it works its way through Congress.

SLADE GORTON.

ADDITIONAL VIEWS OF SENATOR CHARLES E. GRASSLEY

Consistency is a difficult habit to break, particularly if one is committed by principle.

This is the fourth consecutive year I have proposed an across-the-board budget freeze. I am committed to this approach because if shared sacrifice is not the point of departure, then the ultimate goal of budget control will not be realized.

An across-the-board freeze is a way to avoid making the first step of budget control a zero-sum effort: cutting and eliminating certain programs while feeding others. In the past, where there has been one sacred cow in the budget, all programs became sacred cows, and so budget discipline suffered. This is precisely why past budgets have gone uncontrolled. An across-the-board freeze is intended to neutralize these pressures which have led to uncontrollability in the budget process.

Last year's "Rose Garden" budget cut less than $10 billion in spending for FY 1985. I and my colleagues who supported the freeze warned at the time that if the "Rose Garden" budget were enacted, we would have to slash madly and deeply at the budget for FY 1986. Our warnings proved to be prophetic. The "Rose Garden" budget passed, and here we are in 1985 taking wild swings at the FY 1986 budget. All, that is, except for the defense budget.

The resolution reported out by the Budget Committee lacks fairness and balance, and for that reason I neither voted for it nor support it. I fully intend to renew my efforts on the Senate floor to restore fairness and equity to the package, and will again propose a 1-year, across-the-board freeze.

Of primary concern to me is the fairness question. Senior citizens should not be denied a cost-of-living adjustment (COLA) while at the same time we are giving one to the Pentagon despite continued pricing problems for weapons systems. And certainly our domestic programs cannot be expected to face deep cuts or elimination while the defense budget grows.

I am well satisfied after 2 years of investigating the Defense Department and after uncovering piles of documents and evidence that the defense budget could easily absorb a freeze of budget authority. The unobligated, unexpended balances in the defense budget have now surpassed $50 billion, and are still growing. There is no need to continue to pour more money into the defense budget when the Department cannot even spend the money it has already received from Congress.

My efforts on the Senate floor will seek to eliminate the "COLA" increase for defense while restoring domestic accounts to last year's levels. This would return all spending levels for FY 1986 to their FY 1985 mark. It is this fair and balanced approach alone which commands the moral authority needed to control the Federal budget and reduce deficits.

My vote of "present" for this resolution is indicative of my opposition to the substance of the package. However, after weeks of negotiating and deliberating, it was necessary to move the activity to a new arena. The Budget Committee had faced impasse at every turn. Many on the Committee, including myself, negotiated for a consensus, even bipartisan plan. No effort was successful, and so it was time to move beyond the Committee.

It is my hope the Congress in its collective wisdom will support an across-the-board freeze because it provides the surest, quickest path toward budget control. Any other approach will only escalate budget warfare, and all sides would surely become losers.

CHARLES E. GRASSLEY.

MINORITY VIEWS OF SENATORS LAWTON CHILES, GARY HART, AND J. JAMES EXON

Whatever the opinions expressed in this report, the standard on which the budget will succeed or fail is public acceptance.

Like the membership of the Senate, the public should ask hard questions about the budget resolution reported by this Committee.

Is the level of deficit reduction adequate and credible? Is the budget a product of sacrifice evenly shared? And, if finally approved by Congress, will this budget help make the future more secure?

After 60 separate votes in Committee, the questions still remain and the answers cannot be found by one party on its own. Both parties must join to find national answers.

The Republican architects of this budget claim its passage will lower the deficit to near $100 billion in fiscal 1988. The nonpartisan Congressional Budget Office says the deficit that year will actually be $146 billion under the Republican plan.

This budget, therefore, is flawed from the beginning. To paraphrase a familiar saying, "What you see, is not what you get."

The public and the Senate should be skeptical about the ability of this budget to match the promises it makes on deficit reduction. The public is entitled to ask why they should support an approach that involves so much pain, but fails to correct the problem by leaving the deficit so high. And, in view of the CBO forecasts, the Senate must face up to the need for a more ambitious deficit-reduction program.

It will be a hard job, made even harder because many of the cuts assumed in the budget will not survive challenge on the Senate floor. Despite all the individual decisions made by this Committee, most of the assumptions on which those choices rest were either reversed or erased in a single vote adopting the Committee chairman's substitute.

Included within the substitute is an assumed reduction in the food program for women, infants, and children (WIC) which would remove 143,000 children from this widely applauded nutrition effort. Also included is a $3.0 billion assumed increase in out-of-pocket payments by medicare beneficiaries over 3 years. In earlier Committee votes, WIC was protected, and medicare restraint was to be borne by providers.

Moreover, this budget cuts $2.2 billion deeper into programs for veterans than those reductions already proposed by the White House.

Because there are many "savings" of this sort within the budget resolution, the actual deficit is disguised twice—once by economic assumptions that are too optimistic, and again by assumed cuts the full Senate will not sustain.

If the public and the Senate look into the mix of spending cuts in the budget, they will look hard for balance. And not find it.

Housing units for the elderly and handicapped are reduced. All rural housing programs under Farmers Home are terminated, reducing budget authority by $10 billion over 3 years. Disaster loans under the Small Business Administration are ended. Economic development assistance comes to an end. Federally appropriated subsidies for preferred rate mailers, including the blind and handicapped, are terminated. Cost-of-living increases in social security are frozen for 1 year.

While some cuts might be defensible if they are shared fairly, they are indefensible in a framework which asks more of those who have been asked before.

This budget focuses solely on spending cuts to achieve lower deficits. As reported, it is a product of those who insist tax expenditures are somehow different from other costs to the Federal Government. Thus, while some bear all the burden, others are exempt from even paying their fair share. Therefore, this budget cannot win public acceptance.

If the budget resolution is approved by the Senate, our efforts will be wasted. Interest rates will remain high and climbing, deficits will remain high, the trade deficit will stay at record levels, and the hopes of Americans who want quality jobs and a stable economic environment will inevitably fade.

The budget reported by this Committee is essentially a first draft, in need of major edits, if not a complete rewrite, by the full Senate.

The Senate Budget Committee completed its markup on March 14, faster than any other time in its history, and more than a month before the Budget Act requires the resolution to be reported. We conducted a long string of votes reflecting public sentiment on key programs. For nearly 6 days, the Committee worked through the budget, function by function, in a spirit of bipartisan cooperation. But on the seventh day, the bipartisan spirit rested.

It must be said the task of the Republican chairman of this Committee was not easy. The President had already insisted upon no COLA cuts, no revenues, no cuts in defense. That position put the Committee at a disadvantage in working toward a true bipartisan budget to reduce the deficit. Keeping in mind that the Republicans are responsible for producing a product, the President's positions kept the Committee from achieving the best product possible.

We are disappointed, but hopeful that with the help of the President, we can do better on the Senate floor.

There is much more to be done.

Democrats are as willing now as they were at the outset to renew the bipartisan search for deficit reduction. The budget in its present form will not stand the test of fairness. And it will not do the job.

The task now is for the President to join both parties in the Senate and both parties in the House to work out a more effective, better balanced resolution. We have a unique opportunity. We have yet to seize it. In the days ahead, the American people will be the judge on how well we do.

LAWTON CHILES.
GARY HART.
J. JAMES EXON.

MINORITY VIEWS OF SENATOR ERNEST F. HOLLINGS

The bottom line to this budget resolution exercise is that we lost bipartisanship and didn't do the job. Starting out in a spirit of give and take and an awareness of the monstrous problem we faced, we voted to freeze national defense, taking into account inflation but denying any real growth. The President had asked for 6 percent real growth and the Committee voted to give none. Thereafter, we voted for less than a freeze in most of the functions, freezing military and civilian pay, freezing Federal civilian hiring for 2 years, and eliminating revenue sharing for cities and counties after 1986.

But when it came to social security COLA's, the bipartisanship ended. The Republicans had shown fortitude by standing up to be counted against the President in the vote on national defense. But when it was the Democrats' turn on social programs—on social security COLA's—they scattered in all directions. It was therefore incumbent upon the Republicans to draw up their own budget. They receded for a couple of hours, dealt the cards to individual Senator's needs, decimated the Democratic agenda, and came back as in Vietnam and declared victory.

With "Rose Garden" figures on defense, they labeled $39 billion in cuts as $55 billion in cuts and proclaimed a deficit in 1988 of $102 billion which the CBO estimated to be $146 billion. The Republicans' best effort on cuts is the best proof that deficit reduction and budget balance cannot be done without revenues. A $146 billion deficit 3 years hence will not move the financial markets in the right direction. The ox is still in the ditch.

Meantime, the Democrats proved once again why they lost the last four out of five Presidential races—a total lack of credibility when it comes to managing this Nation's economy. The Democrats still don't have an alternative to Reaganomics. Specifically, congressional Democrats here in Washington wouldn't last 1 day in the mayor's office or the Governor's office back home. If they had shown some willingness to sacrifice by just holding the line on social security, some fortitude by eliminating corporate welfare, we could have presented an economic alternative that was credible.

But lacking a program, the Democrats hurt their own agenda. Instead of protecting the COLA's for those in social security below the poverty level, there was a total freeze on all COLA's. Aid for dependent children was cut, women's, infants', and children's feeding was cut, health care and education were cut, rural housing for the poor was eliminated, the community action programs like

UDAG were cut, EDA was eliminated, and mass transit was crippled.

It is easy to predict the partisan wrangles that will ensue on the floor. It could be that the Republicans intend to vote as a bloc against all amendments. While President Reagan may be moved by this demonstration, the financial markets will not be moved by the figures. It is easy to predict that a comprehensive, across-the-board freeze that includes defense, entitlements, and tax expenditures may not pass. But we will try.

I am indebted to Senators Andrews, Exon, and Kassebaum for their support for an across-the-board freeze. This alternative constituted a shared sacrifice and under the Committee's economic assumptions would have given us a balanced budget by 1989. A majority of the Committee supported a freeze less than a year ago.

If we go through the political exercise of making each Senator walk the plank on each issue then there will be no chance for a meaningful budget in the Senate. We will just have to send what we can over to the House, let them work their will, and come together at a later time. But in the meantime, I hope the President will cool it. His budget was voted down 18 to 4 and his statements such as "make my day" could poison the well so that nothing can be accomplished. We all must learn that with such devastating deficits, the best politics is no politics.

COMPARISON OF ALTERNATIVE BUDGET DEFICITS

[In billions of dollars]

	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990
President's budget request:					
OMB economics	180	165	144	107	82
CBO economics	186	185	186	187	187
SBC:					
OMB economics	171	143	102		
CBO economics	180	164	146		
Hollings-Andrews-Exon-Stennis freeze:					
OMB economics	160	114	60	[1] 2	[1] 65
CBO economics	162	124	90	60	21

[1] Surplus.

ERNEST F. HOLLINGS.

MINORITY VIEWS OF SENATOR JIM SASSER

The budget resolution adopted by the Republican majority of the Committee does not reflect the bipartisan spirit which many of us had hoped would dominate this budget season. Instead, the First Concurrent Budget Resolution for FY 1986 has produced a document borne of political expediency rather than substantive correction.

The former is neat, while the latter is messy and complicated. Unfortunately, this document is irrevelant and substantive correction of the deficit problem is necessary. In the short term, this resolution represents a victory for the congressional budget process. The process has survived another year despite the constant warnings of imminent demise. The price for this short-term survivability, however, has been substantial. Fairness, equity, and candor lie as the major casualties.

The long-term prospects for the congressional budget process and the ability of the process to effectively address the deficit problem are considerably weakened by exercises such as the one that has fashioned this budget resolution. At a time when constructive cooperation was most needed, it has been summarily dismissed. We have simply rendered the process irrevelant.

This resolution represents an attempt by the majority party to salvage the failed economic policies of the last 4 years. These policies have mortgaged the future by piling up a mountain of debt on current consumption. At some point, someone will have to pay for our excesses: The someone will be our children and grandchildren.

Since the Reagan administration assumed office some 4 years ago, the national debt has effectively doubled from $900 billion to $1.8 trillion. It is currently projected that the national debt will treble before the end of the decade. Adding to this flow of red ink is an international trade imbalance which reached $123.3 billion in deficit last year and is projected to continue to rise for the unforeseeable future.

The consequences of these twin deficits threaten to change the character of the American economy and the fabric of American society. The inexorable shift away from a manufacturing base toward a service-dominated society carries with it immediate economic dislocations and future uncertainty. The economy is steaming full speed ahead into uncharted waters and leaving in its wake traditional economic theories and long-established views of the role of government in society.

The proposed elimination of important community and economic development programs such as the Economic Development Administration, the Appalachian Regional Commission, Farmers Home Administration rural housing programs, and general revenue sharing will severely tax local communities and their capacity to attract investment and provide essential public services. These cuts amount to a loss of $15 billion over the next 3 years.

Severe reductions in the urban mass transit operating subsidies program, amounting to more than $3.6 billion over the next 3 years, will hamper the ability of local systems to provide needed transportation services and will amount to increased transit fares.

Cuts in veterans medical care and the imposition of VA housing loan origination fees from the current 1 percent to 3.8 percent signal a retreat from the Government's obligation to provide for those who risked the ultimate sacrifice for their country.

The imposition of user fees on Government-sponsored enterprises such as the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank System, Student Loan Marketing Association, and the Farm Credit Administration will effectively limit homeownership in the low- and moderate-income categories. Also, combined with cuts in the guaranteed student loan program, middle-income families will find it more and more difficult to afford the expenses of a college education.

Finally, this budget is an assault on America's 36 million elderly citizens. This despite the unequivocal pledge made by the President that social security would not be cut to reduce the deficit. The President's party, at least in this Committee, has decided to ignore that pledge and deny cost-of-living adjustments to social security recipients next year. This despite the fact that social security is a self-financing social insurance program and conceptually bears no responsibility for the deficit and no contribution toward deficit reduction.

Overall, what may be the most disturbing aspect of this budget resolution is its ineffectiveness. The program and policy changes embodied in this resolution, as drastic as they are, still leave us with a $180 billion deficit next year. At the end of 3 years, the deficit is still above $146 billion. The fastest growing component of the budget remains interest on the national debt. This will serve to strengthen our dependency upon capital from abroad in order to finance our debt.

Overall, the budget is as unfair as it is ineffective. While we deny inflation adjustments to senior citizens, we allow inflation adjustments for defense spending. At the same time that we reduce investment in the future of our communities and citizens, we continue to subsidize corporate welfare. These inequities must be addressed, and should have been addressed in this budget resolution. They were not, and as a result this budget is inadequate. As we continue with this process, it is my sincere hope that we will correct these injustices. As of now, we have failed.

JIM SASSER.

MINORITY VIEWS OF SENATOR GARY HART

When the Committee adopted the First Concurrrent Resolution on the Budget for Fiscal Year 1986, I joined with every Democrat on the Committee in opposition to the report. The Republican majority has failed to strike an equitable balance between those who rely on public services and those who demand an increasing share of Federal largesse. The deficiencies of the Republican proposal are well set out in the accompanying views of Senator Chiles, with which I concur.

Beyond those objections, I am dismayed by the reluctance of the Committee to make a forthright statement of support for aggressive action on tax reform. There is a growing public perception that Congress has deliberately adopted a strategy of delay in addressing the important issue of tax simplification. During markup on the resolution, I introduced sense of the Senate language on tax reform. It called for timely and explicit action on tax reform to enable the Committee to lend its prestige to the proposition that tax reform should not be held hostage to any other legislative priority, including the important goal of significant deficit reduction.

The Committee backed away from this position which, incidentially, was endorsed by Secretary Baker during his confirmation hearings. In rejecting the original language of my resolution, the Committee abandoned a specific call for floor action by a date certain, in favor of a diluted endorsement of tax reform at some indefinite time in the future. Such a confused message is bad policy, and bad politics.

I believe many Senators share my view of the urgency of making progress in curing the tax system of many flagrant inequities. There is no reason why this goal cannot be pursued simultaneously with other legislative matters.

I am especially concerned that unwarranted delay in addressing tax simplification will heighten two very real dangers now confronting us. First, voluntary compliance with the tax laws, so essential to the effectiveness of any tax system and a key element of fairness in sharing the tax burden, will continue to be eroded the longer we delay. Second, declining faith among our citizens in the ability of government to respond to the need for rational reform will provoke a crisis of confidence in public institutions.

These outcomes will inevitably result from a demonstration of our inability or unwillingness to deal with this serious problem which is so high on the public's agenda. For all the rhetoric of agreement on the need to restructure the tax code, the Committee stood strangely reticent when given the opportunity to speak unambiguously in favor of prompt action on tax reform.

Those who argue for delaying tax reform appear to believe either that the issue is not really an urgent concern, or that the U.S. Senate is incapable of handling more than one important issue at the same time. I reject both those contentions.

The Committee should send a clear signal to the American people and the business community that the Senate shares their disdain for the inequities of the tax code, that the Budget Committee in particular rejects the notion that tax reform should be deferred pending final action on a deficit reduction package, and that Congress as an institution can, in fact, deal simultaneously with important fiscal matters.

A number of comprehensive tax reform proposals have been before the Congress for several months. Sufficient time has passed to allow for thorough analyses and evaluations of these plans by authorities in the private and public sectors. The public's desire for prompt action on tax reform is clear to every elected official who communicates with his or her constituents. There is no justification for footdragging on this issue. The Senate should proceed immediately with hearings on the merits of alternative reform plans, and produce a bill within the year which meets the objectives endorsed by this Committee.

GARY HART.

MINORITY VIEWS OF SENATOR DONALD W. RIEGLE, JR.

The task is deficit reduction, and you will not find a stronger spokesperson or more vigilant advocate than myself in the U.S. Senate, for sharply reducing the historically unprecedented Federal budget deficits that we now face as far as the eye can see. I am strongly opposed to this particular budget resolution and I urge the Senate to fashion a new approach on the Senate floor.

The objective should be to accomplish deficit reduction in a manner that's fair and equitable by taking into consideration the previous actions we have taken over the past 4 years. With that in mind, the inevitable pain resulting from sharply reducing Federal spending should be spread evenly and equitably over the full range of the Federal Government's programs and activities. The Congressional Budget Office has calculated that nondefense spending has been reduced by $551 billion through the end of the decade by actions we have already taken since 1981. A significant percentage of those domestic spending cuts were in programs designed to provide basic sustenance and services for low-income Americans. During the same period, spending for the military has increased by $410 billion and tax reductions have reduced Federal revenues by $1.2 *trillion*. These basic facts on our previous actions over the last 4 years cannot be ignored as we face the task of deficit reduction.

Therefore, rather than cutting programs that will again hurt low-income Americans, such as WIC, Child Nutrition, and Job Corps, or to totally eliminate some programs such as Rural Housing or General Revenue Sharing, it makes more sense to spread reductions more evenly while exempting means-tested programs from any further reductions at all. Defense which has seen a massive growth since 1980 should also not be exempt from a real nominal freeze on spending. In addition, by capturing through improved compliance measures a small fraction, say 10 percent, of the $112 billion tax revenues legally due the Federal Government but not reported or paid, would make a significant contribution toward reducing the deficit without raising anybody's taxes.

There's one specific recommendation in this package to which I want to strongly object; the elimination of the COLA adjustment for those who receive social security. During the course of our deliberation in the Budget Committee, there was much talk about the tax pledge taken during the 1984 presidential campaign. However, there was also a pledge taken on social security. In October before the election and again in January after the election, the President reiterated his pledge that social security benefits would not be cut nor would the COLA's be tampered with. The social security program is not contributing a dime to the Federal deficit. The separately financed social security trust fund, solvent through the year 2045, is generating a growing surplus that is already contributing to deficit reduction. Cutting social security will not reduce the national debt, nor will it reduce the interest payments on the debt. It doesn't accomplish what we're attempting to do in this resolution, which is to move toward balancing the Federal budget, and it does not belong as part of the budget process.

In addition, there are other reasons why we should not eliminate the COLA adjustment for social security beneficiaries. The average retired worker today receives about $450 a month from social security, an amount roughly equal to the national poverty level. Eliminating the COLA adjustment, which is designed to keep the buying power of the benefit the same in the face of inflation, would cut about $18 a month off of that average benefit. For the significant percentage of seniors for whom social security is the sole or primary source of income, that $18 is a lot of money. When considered together with the average $125 a month in out-of-pocket costs for health care, not to mention the rising cost of gas, electric, and phone bills it becomes clear how important it is for our seniors to receive the inflation adjustment in their social security benefits. Finally, all of this fails to mention that social security benefits have already been drastically cut over the past 4 years. If we start with the program changes included in the Omnibus Budget Reconciliation Act of 1981 together with the benefit reductions in the Social Security Amendments of 1983, social security benefits have already been cut by about $115 billion through the end of this decade. The elimination of the COLA adjustment should not be part of any budget package.

In conclusion, the resolution before us today is the product of backroom negotiations in which members on my side of the aisle were deliberately excluded. We desperately need a budget proposal that takes a deep bite into Federal deficits. Without bipartisan cooperation the success of any proposal is seriously in doubt. I believe it is only possible to achieve such a package through a bipartisan partnership, and I urge my colleagues on both sides of the aisle to join together to get the job done.

DONALD W. RIEGLE, Jr.

MINORITY VIEWS OF SENATOR DANIEL PATRICK MOYNIHAN

I voted against this resolution and the accompanying reconciliation instruction because they encompass spending cuts and a freeze on social security cost-of-living adjustments that are unjust, and do so without reducing the budget deficit as claimed.

The budget deficit is the central matter facing the 99th Congress. Yet, the resolution voted out by the Budget Committee for FY 1986 does not contain a balanced approach to deficit reduction. Instead, the administration and members of the President's party are trying to use the occasion of the budget deficit to dismantle many of the basic social commitments of the last half century.

Sixty separate votes were cast in the Committee markup session, in which individual spending levels were agreed upon in a bipartisan way. Then, late at night an agreement was reached among those in the majority party, and with a single vote reversed all of the efforts of the previous 60 votes. Not a single Democratic vote was cast in support of this new agreement. Spending levels that had been resoundingly rejected by the Committee, were all of a sudden acceptable to the Republican members.

This package will not be acceptable to the entire Senate, or to the American people. It would force the elderly, the poor, and the young of this country to shoulder the deficit burden without any assistance from those most capable of contributing.

Despite this, this resolution does not solve the deficit problem. The majority claims that the resolution will lower the deficit to $100 billion in fiscal 1988. Yet, the nonpartisan Congressional Budget Office informs us that the deficit actually will be $146 billion, nearly half again as large.

The majority party fails to understand the unique character of the current deficit. The problem is not too much spending for social programs, it is too much interest expense.

According to the Congressional Budget Office, the deficit can be divided into two parts:

(1) *Primary deficit:* the amount of money spent on Federal programs less revenue.

(2) *Interest deficit:* the amount paid in interest on outstanding Federal debt.

Until recently, primary deficits were relatively rare:

Two in the 1950's; two in the 1960's;

Six in the 1970's—but they weren't large;

Except for the $40 billion primary deficit in the postrecession year of 1976.

The pattern continued until the walloping $105 billion primary deficit of the depression year of 1982.

Program deficits—the primary deficit—are simple arithmetic. The amount spent on farm programs does not affect the amount spent on defense. But the interest deficit is algebraic. You change one part, and you change the whole.

What Keynes called the "magic of compound interest" works with debt as well as savings. It starts slowly, then explodes.

The Congressional Budget Office estimates that the primary deficit problem is dwarfed by our problem with the interest deficit. By 1990, under current law, the primary deficit is essentially stable.

PRIMARY DEFICIT AS PERCENT OF GNP

[Dollars in billions]

	Primary deficit	Percent of GNP
1970 to 1974	$1.0	0.1
1975 to 1979	30.8	1.3
1980 to 1984	67.3	2.1
1985	100.2	2.6
1986	87.3	2.1
1987	85.2	1.9
1988	82.1	1.7
1989	83.3	1.6
1990	84.1	1.5

At the same time, the interest deficit—the deficit created by interest payments on the public debt—will continue to grow steadily for the remainder of this decade:

INTEREST DEFICIT AS PERCENT OF GNP

[Dollars in billions]

	Interest deficit	Percent of GNP
1970 to 1974	$13.0	1.1
1975 to 1979	25.1	1.3
1980 to 1984	67.5	2.2
1985	113.8	3.0
1986	127.7	3.1

INTEREST DEFICIT AS PERCENT OF GNP—Continued

[Dollars in billions]

	Interest deficit	Percent of GNP
1987	147.8	3.3
1988	166.9	3.5
1989	188.7	3.6
1990	211.9	3.8

By 1990, the interest deficit will grow to 3.8 percent of GNP, more than twice the primary deficit share of GNP. By this measure, 70 percent of the total deficit claim on GNP will be due to the interest deficit, NOT to a fundamental mismatch in program spending and taxes.

We have been thinking arithmetic. But we must think algebra.

Every year since 1982, Congress has cut spending and raised taxes; the deficit continued to soar. The algebra of compound interest has superseded the arithmetic of spending cuts and tax increases.

I proposed a budget plan to address the geometric growth of our interest burden. The Federal Government now holds $245 billion in direct loans to private businesses and persons. These are amounts that the Federal Government has loaned under a myriad of lending programs. Some of these loans were made at below market interest rates and at unusually long maturities. These loans represent amounts owed to the Federal Government and, as such, are assets that can be sold.

The Government's loan portfolio is nearly three times the size of Citicorp's portfolio, yet we expend only a fraction of the resources to manage these loan assets as does Citicorp. I proposed simply to sell the Government's loan portfolio to private institutions that could manage these loans professionally.

This is not a new idea. Indeed, loan sales have been made, in one form or another, by the Federal Government since most of the current loan programs were created, some as long ago as the 1930's. According to the Congressional Budget Office, even with very deep discounts, the Federal Government could raise upwards of $95 billion by selling the existing portfolio, and upwards of $45 billion from loans that will be made in the 4-year period 1985–89.

This proposal makes sense not only as sound management, but also because the revenue could be used to halt the ceaseless compounding of interest on the public debt, by bring the deficit in 1988 down well below $100 billion. My budget plan would have reduced the deficit in that year to $91 billion, more than $50 billion below the amount CBO estimates the Republican resolution could achieve.

The Senate Budget Committee's vote to approve the Republican plan was a mistake that the Nation cannot afford. We are told this proposal would reduce the Federal budget deficit to $100 billion by 1988. It will do no such thing. Three years out the deficit will more likely be nearly $150 billion. This is not good enough; worse, it would cut the budget in all the wrong places—mass transit, funding for elementary and secondary education, child nutrition, and the cost-of-living adjustments needed by our senior citizens. When this budget comes to the Senate floor I will offer amendments to restore these badly needed funds.

We can do better. We had better do better.

DANIEL PATRICK MOYNIHAN.

MINORITY VIEWS OF SENATOR J. JAMES EXON

No sector of our economy has been more adversely affected by the huge budget deficits of the last 4 years than rural America. Large deficits keep interest rates higher than they need to be, increasing farmers' cost of production, and push the value of the dollar to record levels making it very difficult to sell agricultural products overseas. In addition, commodity prices and the value of rural assets have declined substantially.

I applaud the Committee for incorporating the Exon mark into its majority approved budget package. Under this plan, the Committee recognizes the major economic crisis in agriculture. This is a first step towards devising a fair, comprehensive 1985 farm bill. At the same time, the Committee recognizes that agriculture can and will contribute its fair share of deficit reduction.

I am also pleased that the Committee has incorporated the Hollings-Andrews-Exon defense mark into its majority approved budget. This frozen level of spending with an adjustment for inflation is a responsible measure which contributes significantly to deficit reduction. I am convinced that greater efficiency can be achieved in the practices of the Department of Defense without compromising our national security.

If part of a fair package, I would also approve of a freeze on all non-means-tested entitlements. This key element of the majority proposal and the Hollings-Andrews-Exon proposal finally brings fiscal discipline to our Nation's ever growing entitlement programs.

Unfortunately, in several other areas, which I will specifically comment here on just a few, the majority proposal is unrealistic in its savings, and it further exempts a large sector of corporate America from contributing to the deficit reduction effort.

In deeply cutting funds for Amtrak, the majority proposal places a significant Federal investment at risk. In addition to compromising the transportation needs of the Nation, the demise of Amatrak will result in expensive contractual obligations which the Federal Government must settle. This short-sighted approach will bring long-term losses in exchange for a temporary outlay savings.

In eliminating essential air service funds, the majority plan would sever much of rural America from air transportation. The effects of this decision will ripple through the entire economy.

The majority proposal also fails to meet Federal responsibilities in the area of education. The impact aid program is a most appropriate example. Under the Constitution, States and localities are prevented from taxing Federal property. Therefore, a Federal presence, be it a military base or Indian reservation, has a negative impact upon local school districts which rely on property taxes as a key means of support. The impact aid program was designed to assist school districts educating children of federally connected parents. In eliminating the "B" portion of impact aid, the majority fails to meet a basic Federal responsibility.

The burdens of deficit reduction must be fairly shared. From 1981 to 1983, there were 128 corporations earning $57 billion in profits and paying no taxes. In fact, these corporations received an aggregate $5.6 billion in refunds. The majority proposal seeks great sacrifice from working Americans but it does not ask these profitable corporations to contribute a dime toward deficit reduction.

I fear that many of my colleagues have voted for the majority plan not because they support its provisions but because they wanted to move a plan to the floor. As such, it is likely that much of the proclaimed savings will evaporate and the plan will unravel.

Senators Hollings, Andrews, and I have proposed the only plan which balances the budget before the end of the decade. It is a fair and comprehensive approach which asks shared sacrifice. I hope that my colleagues will carefully examine the Hollings-Andrews-Exon proposal. It offers a life raft to a Nation drowning in a sea of red ink.

J. JAMES EXON.

MINORITY VIEWS OF SENATOR FRANK R. LAUTENBERG

Beneath the veneer of recovery, uncontrolled budget deficits are rotting our economic future.

The Nation's borrowing is keeping interest rates high. In turn, high rates are keeping the dollar overvalued. So, our exports are priced out of the international markets, while imports flood our own. Manufacturers and the thousands of people they employ are running harder and harder just to stay in place. They are losing jobs at home and markets abroad that they may never regain.

At the same time, our diet for debt has been fed by foreign capital. As a net debtor nation, owing out more to others than they owe to us, the United States will be less secure, and less a master of its own economic destiny.

What is worse, the problem is feeding on itself. The Nation borrows to finance the deficit, and then borrows to pay interest on its borrowing. Since 1980, interest on the national debt has been the fastest growing sector of the national budget. On the present path, the Nation will spend more on debt service by the end of the decade than it will on all nondefense discretionary programs combined. That is, more in interest than in feeding our people, educating them, and building for the future.

Escape from this fate will not be easy. It will not be easy politically, and it will not be easy practically.

As a political matter, a solution to the deficit requires bipartisan leadership. Leadership is needed to warn the public, a public that was misled to believe, just a few short months ago, that the deficits would disappear. Leadership is needed to motivate America's sense of common sacrifice and of common duty to meet a national challenge: to reduce the deficit.

That leadership has not been forthcoming, from the President, or from the majority party in the Senate. The President brought us these deficits. They are the fallout of supply side economics. Before November, he argued that economic growth would consume the deficit. Instead, it is likely that deficits will consume economic growth. Now, he presents as a solution a budget that makes a genuine solution all the more difficult.

The President's budget would cut essential programs to educate our children, to create a foundation for economic activity. Defense spending would continue its unbridled growth. Tax reform is ignored and corporate tax loopholes and havens that cost the Treasury close to $100 billion a year would be untouched. And, deficits would remain over $180 billion a year through the end of the decade. The President asks for one-sided sacrifices for no good end.

Unfortunately, the work of the Committee's majority is not much better. The budget reported by the Republican majority would leave us with deficits of $146 billion in 1988, according to the nonpartisan Congressional Budget Office. This is over $40 billion above the figure claimed by the majority. To reach this unsatisfactory result, however, the Committee would impose sacrifice unevenly.

The budget would give a cost-of-living increase to the Pentagon, but deny one to the senior citizens on social security, who count pennies for their daily living.

The budget would cut at the heart of programs essential for the economic vitality of urbanized States like New Jersey. Amtrak, mass transit, and urban development action grants would face deep, perhaps fatal cuts. Meanwhile, agricultural programs, and subsidies for Western power would be shielded.

The budget would freeze our national effort to clean up toxic waste. The Superfund law must be reauthorized, and our commitment enlarged. This budget would assume an effort less than that proposed by the President, and far less than that approved by the Senate's Committee on Environment and Public Works. The result will be that Americans will continue to face the poisonous threat to their land, water and health, far into the future.

The budget contains no taxes, its proponents say, but there is a tax man hiding in this budget. The tax collector will be riding the busses and mass transit rails, collecting higher fares as a result of this budget. The tax collector will be at the hospital door, collecting higher fees from the senior citizens needing medical care. The tax collector will be at the school house door, for education costs will go up. The tax collector will be wearing a State or local hat, as essential Federal Government obligations to average Americans are abandoned to the State and local level.

In coping successfully with the task before us, new ideas and approaches must be tested. In Committee, I joined with my colleague from New York, Senator Moynihan, in proposing the sale of loan assets. While the Government borrows billions at 12 percent interest, it sits on $245 billion in loan assets. These are assets that should be sold, as quickly as prudently possible, to reduce the deficit, to break the spiralling increase in debt service, and to put the Nation on a firmer footing.

Failing to do that, we are like a consumer who pays 18 percent on credit card loans, while sitting on savings earning 10 percent and losing ground by the day. The wise consumer would dip into those savings, no matter how painful, clear his decks, and then break the spending habits that put him in that bind. In a sense, the Nation should do the same.

But old habits die hard. And reform must touch all sectors of our society. The bureaucracy of the Pentagon should be subjected to equal scrutiny as the bureaucracies that educate our children, transport our commuters and move our products, and protect our environment.

If we want to remain a compassionate society, one that meets the needs of the average citizen, one that provides for the future, if we want to avoid rekindled inflation, rising interest rates, or renewed recession, we must do better.

We must fight a winning war against rising budget deficits. The Committee majority's budget would wage a futile assault and the casualties will only be those who have suffered so much before. Until all of America is enlisted in the battle, we cannot succeed.

FRANK R. LAUTENBERG.

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